CITY OF SURPRISE
City Audit Committee Meeting
16000 N. Civic Center Plaza
Surprise, AZ 85374
Wednesday, August 12, 2020 @ 3:30 PM
COUNCIL CHAMBERS

NOTICE: In an effort to protect health and safety of city employees, residents, and visitors, the Council Chambers will be closed to the public during this meeting. The public may access the meeting by viewing a live stream or broadcast of the meeting. To watch live, please visit www.surpriseaz.gov/surprisetv, the Surprise City Gov Facebook page at www.facebook.com/cityofsurprise. Cox channel 11 and Century Link channel 8513 will also carry the meeting live.

For instructions on how to comment on agenda items and public hearings, please go to https://bit.ly/30XKdHA

A. Call To Order

B. Roll Call

C. Pledge of Allegiance

D. Current Events and Reports

E. Staff Reports

F. City Audit Committee Agenda

CALL TO THE PUBLIC:

Public comment will be taken through email or via phone. To submit email comments, including Call to the Public for non-agenda items, please email publiccomments@surpriseaz.gov. Comments for Call to the Public must be submitted prior to the start of the meeting. To comment on agenda items, emails must be submitted prior to the time(s) designated for public comment by the Subcommittee Chair during the meeting or before the agenda item has otherwise concluded.

To comment live by phone for Call to the Public for non-agenda items or for agenda items, please call 623-222-1331 prior to, or during, the meeting to have your name placed on a callback list. If you reach voicemail, please leave your name and phone number. The Subcommittee Secretary will call those wishing to comment from the dais during the meeting, and the call will be streamed through the Council Chamber audio system. Only calls received before Call to the Public for non-agenda items or before or during the time(s) designated for public comment by the Subcommittee Chair during the meeting on the subject agenda item will be accepted and streamed. No calls will be accepted after the time(s) designated by the Subcommittee Chair for public comment or after an agenda item has otherwise concluded.

CONSENT AGENDA:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

1.	Citywide	Consideration and action pertaining to the approval of the January 29, 2020 Audit Committee meeting minutes.	Carol Holley City Manager Office
2.	Citywide	Consideration and action pertaining to the Building Safety Permit audit report.	City Manager Office

3.	Citywide	Discussion and action pertaining to the Land Information System Plan Review and Permit Records memo.	City Manager Office
4.	Citywide	Discussion and action pertaining to the Ottawa License Agreement report.	City Manager Office
5.	Citywide	Discussion and action pertaining to the Workers' Compensation audit report.	City Manager Office
6.	Citywide	Discussion and action pertaining to the Subrogation Error memo.	City Manager Office
7.	Citywide	Discussion and action pertaining to the Bond Summary continuous review report.	City Manager Office
8.	Citywide	Discussion and action pertaining to the Fleet Management audit report.	City Manager Office
9.	Citywide	Discussion and action pertaining to the Cash Handling - Surprise Stadium Box Office audit report.	City Manager Office

G. Other Business and Future Agenda Items

H. Executive Session

Consideration and action to recess into executive session pursuant to A.R.S. 38-431.03(A)(2) for presentation and discussion of Central Cashier cash handling material and documents deemed confidential by law.

For information purposes: Upon a public majority vote of a quorum (“Commission”), the Commission may hold an executive session, which will not be open to the public, but for only the following purposes: discussion or consideration of records exempt by law from public inspection (A.R.S. §38-431.03(A)(2));

or discussion or consultation for legal advice with the attorney or attorneys of the public body (A.R.S. §38-431.03(A)(3)).

Confidentiality Requirements: Pursuant to A.R.S. §38-431.03(C)(D), any person receiving executive session information pursuant to A.R.S. §38-431.02 shall not disclose that information except to the Attorney General or County Attorney or by agreement of the Commission, or as otherwise ordered by a court of competent jurisdiction.

The Commission may vote to hold an executive session for the purpose of obtaining legal advice from the Commission’s attorney on any matter listed on the agenda pursuant to A.R.S. § 38-431.03(A)(3).

I. Adjournment

SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED:August 6, 2020 at 4:25 PM

SPECIAL NOTE: PERSONS WITH SPECIAL ACCESSIBILITY NEEDS, INCLUDING LARGE PRINT MATERIALS OR INTERPRETER, SHOULD CONTACT THE CITY CLERK'S OFFICE @ 623.222.1200 OR TTY 623.222.1002, BY NO LATER THAN 24 HOURS IN ADVANCE OF THE REGULAR SCHEDULED MEETING TIME.

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: August 12, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person: Carol Holley
District: Citywide

Consent: No   Regular: No   Public Hearing: No   Report/Discussion: No

Agenda Wording:
Consideration and action pertaining to the approval of the January 29, 2020 Audit Committee meeting minutes.

Motion:
I move to approve the minutes of the January 29, 2020 City Audit Committee meeting.

Background:

Objective Analysis:
The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement. City staff does not anticipate any negative impacts at this time.

Policy Compliant:
Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:
No financial impact.

Budget Impact:
No budgetary impact.

FTE Impact:
No FTE impact.

ATTACHMENTS:
1. Audit Committee meeting DRAFT MINUTES 01292020

CITY OF SURPRISE
Audit Committee Meeting
16000 North Civic Center Plaza
Surprise, AZ 85374

Wednesday, January 29, 2020 – 3:00 p.m.

DRAFT

CALL TO ORDER

Chair Melissa Holdaway called the **Audit Committee Meeting** to order at 3:00 p.m. at Surprise City Hall, Council Chambers Overflow Room, 16000 North Civic Center Plaza Surprise, Arizona 85374, on Wednesday, January 29, 2020.

ROLL CALL

Chair Melissa Holdaway, Vice-Chair Connie Bowers, Vice Mayor Chris Judd, Councilmember Ken Remley, John Holland, Andrea Davis, Finance Director, and Tammie Hollowell, IT Director.

PLEDGE OF ALLEGIANCE

CURRENT EVENTS AND REPORTS

None.

STAFF REPORTS

None.

STAFF PRESENT

Terry Lowe, Deputy City Manager & Water Resource Management Director; Nick Sarpy, Accounting Manager; Carol Holley, Internal Auditor-Sr., Alison Matthees, Internal Auditor, and April Irish, Staff Liaison.

CALL TO THE PUBLIC

None.

REGULAR AGENDA ITEM

1. **Action item: Approval of September 25, 2019, Audit Committee meeting minutes** – Councilmember Ken Remley motioned to approve the minutes. Second, by Vice-Chair Connie Bowers. Seven yes votes, motion carried.
2. **Presentation to the Audit Committee by Brittany Williams of Heinfeld, Meech & Co., P.C. to provide a general overview of the various reports they conducted for FY2019 annual audit, the Comprehensive Annual Financial Report and associated reports** – Overall, no fraud, waste or abuse noted, they indicated an unmodified report opinion with is the highest status possible and any suggestions

were immediately rectified. Brittany Williams gave kudos to Andrea Davis and Nick Sarpy. Vice Mayor Judd asked if the fraud checklist would be reviewed? Andrea Davis responded yes. Councilmember Remley asked if this will be presented to the Council? Brittany Williams responded that she will be at the 2/4/20 City Council Meeting.

3. **Action item: MySurprise report by Allison Matthees indicating the overall upward trend of usage and the highest usage rate pertained to streets, sidewalks and traffic** – John Holland motioned to approve. Second, by Vice Mayor Chris Judd. Seven yes votes, motion carried.
4. **Action item: FY2019-2020 2nd Quarter Summary of Audit Recommendations** – One low and two high risk items noted and will be addressed at next meeting as the three audit reports and two memos were not ready in time. Vice Mayor Chris Judd motioned to approve. Second, by Vice-Chair Connie Bowers. Seven yes votes, motion carried.
5. **Action item: Signing of updated Audit Committee Bylaws approved by Audit Committee on September 25, 2019** – Vice Mayor Chris Judd motioned to approve. Second, by John Holland. Seven yes votes, motion carried.

OTHER BUSINESS AND FUTURE AGENDA ITEMS

Councilmember Ken Remley as if the Fixed Asset Inventory was done? Andrea Davis and Nick Sarpy confirmed all GIS assets confirmed.

The next Audit Committee Meeting will be Wednesday, April 22, 2020, at 3 p.m.

EXECUTIVE SESSION

None.

ADJOURNMENT

Vice Mayor Judd made the motion to close the meeting. Carol Holley seconded the motion. Chair Melissa Holdaway adjourned the Audit Committee Meeting of January 29, 2020 at 3:45 p.m.

____
Melissa Holdaway, Chair

ATTEST:

____
April Irish, Staff Liaison

CERTIFICATION:

I, Sherry Ann Aguilar, City Clerk for the City of Surprise, Maricopa County, Arizona, do hereby verify that these are the true and correct minutes of the Audit Committee Meeting of **Wednesday, January 29, 2020.**

____
Sherry Ann Aguilar, City Clerk, MMC

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: August 12, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No   Regular: Yes   Public Hearing: No   Report/Discussion: No

Agenda Wording:

Consideration and action pertaining to the Building Safety Permit audit report.

Motion:

I move to approve and distribute the Building Safety Permit audit report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. Audit Report - Community Dev-Final 12Dec19pptx

SURPRISE
ARIZONA

Building Safety Permit Processing

Community Development Department

September 16, 2019

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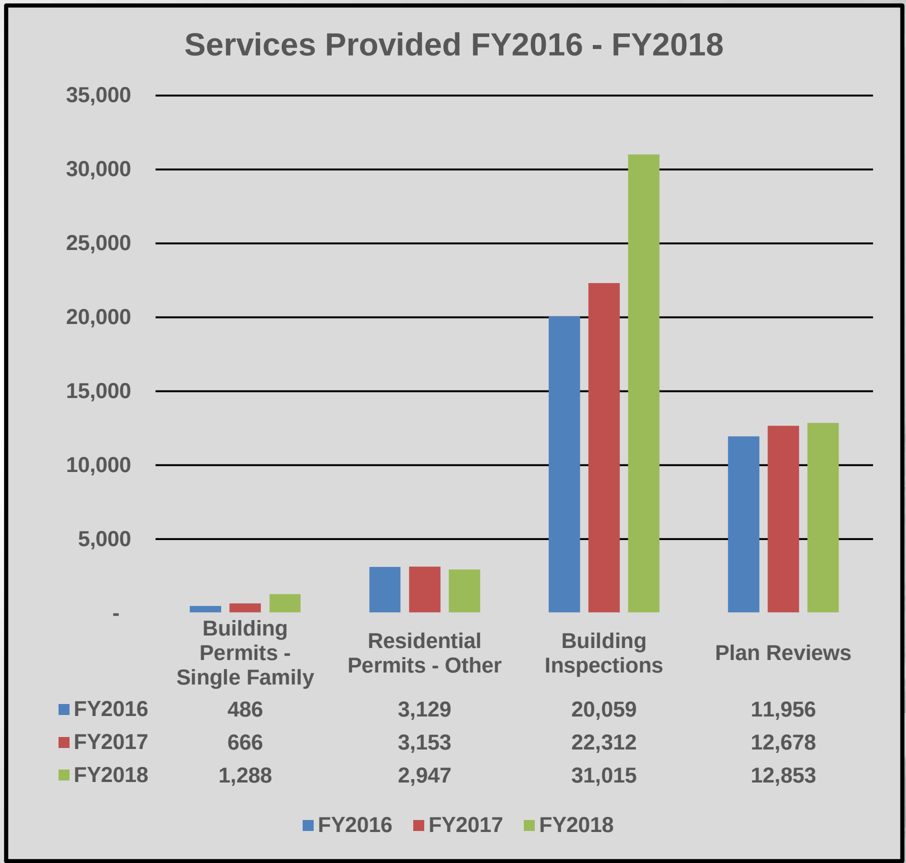


Data in chart obtained from Community Development's Quarterly Reports: FY2018 2nd Quarter 1/16/18, FY2018 4th Quarter 7/5/2018; FY2017 2nd Quarter; FY2017 4th Quarter 7/10/17). Community Development's Quarterly Reports were not audited by Internal audit.

Executive Summary and Observations

Executive Summary

As part of the FY2019 Annual Audit Plan, an audit of Development Services (Division) Permit Processing was closed in September 2019. Though there was some discrepancy in the interpretation of older data between Internal Audit (IA) and the Division, more exhaustive procedures were not performed due to the pending system replacement and data migration. IA intends to revisit the Division to assess internal controls supporting the new replacement system.

As part of the audit, IA assessed the Division's compliance with policies, procedures, and regulations; proper authorization and approval of fees; the accuracy and completeness of Land Information System (LIS) permit transactions; and the adequacy of information technology systems to control, monitor, and limit risk to City of Surprise (City) LIS data.

The audit procedures performed identified LIS security control limitations. The Division and the Information Technology (IT) Department are aware of the system limitations. The Division in conjunction with applicable City departments is in the process of assessing a potential LIS replacement system. The data migration and implementation of a new system might warrant changes in how transactions are processed, documented, monitored, or reconciled.

Based on the audit testing performed, fees were appropriately approved and the Division is in compliance with the reviewed Arizona State Statutes. Additional opportunities related to consistently entering building permit payment information in LIS in compliance with the Division's Information Desk Procedure 2.d. were identified and discussed with the Division's staff. Audit testing determined that the Division, with the assistance of the Finance Department (Finance), has controls over quarterly reconciling paid permit transactions. Opportunities exist to strengthen the monitoring controls over LIS permit transactions that are not included in the Finance reconciliation procedures.

Several best practices for managing the LIS database tables and permit processes are in place including, but not limited to: changes to fee tables are verified by the Division's staff in a test database before changes are applied by IT in the production database; and refunds require the review and approval of two managers. Opportunities were identified to implement additional best practices for managing LIS fee tables.

With the current mitigating controls in place, LIS functional limitations continue to present a risk as LIS users have system permission to add, update, and delete records and make changes to the database tables. If a breakdown occurs in the current mitigating control environment, the lack of LIS system audit logs could open the Division to possible errors that might not get detected in a timely manner.

Summary of Observations

1. A detailed vendor proposal addressing assessment needs should be accepted and signed off by the Division and applicable process owners before the LIS replacement agreement is approved and executed.
2. Permit payments should be updated in LIS in accordance with Division policy and procedures.
3. Database tables should reflect the most current information and limit data redundancy when possible.

Observation Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions in Appendix A.

Background, Objectives, and Scope

Background

As part of the FY2019 Annual Audit Plan, IA conducted an audit of the Development Services Permit Processing. Development Services is a division of the Community Development Department. The Division processes building permits and plan reviews, conducts building inspections, and monitors code compliance of structures located within the City. Private citizens, commercial and residential developers, utility companies and contractors must obtain a permit to initiate any City improvement project.

In FY2018, the Division performed over 31,000 building safety inspections, issued over 4,200 residential permits which resulted in over $4.3 million in inspection and permit revenue. Inspection and permit records are initiated and invoiced in LIS. The invoice amounts created in LIS and the associated payments received from customers are manually keyed in Munis by Finance staff. Payment information from Munis is then manually keyed into LIS by Division staff.

LIS has exceeded its useful lifecycle and security patches were last updated in 2006/2007. Limited support is available from the contractor. The Division is in the process of replacing the legacy system, which is a multi-departmental application.

Objectives

The objectives of the audit was to determine:

- Compliance with applicable policies, procedures, and regulations
- Proper authorization and approval of fees
- Accuracy and completeness of LIS permit transactions
- Whether information technology systems are adequately controlled, monitored and utilized to limit risk to LIS data.

Scope / Methodology

The initial scope of the audit was July 1, 2017 to October 18, 2018. Based on the number and dollar amount of LIS inspection and permit invoices without updated Munis receipt or journal numbers, the scope was expanded to include 348 permit and inspection invoices for the period of April 2002 to October 2018.

Procedures included:

- Analysis and sample-based testing of Munis and LIS data and the related supporting documentation
- Comparison of LIS fee tables against the Citywide Comprehensive Fee Schedule (Schedule) and City resolutions (2017-092, 2010-23, 2012-01)
- Interviews and discussions with the Division, IT, and Finance staff
- Review of LIS user access system rights and privileges
- Review of the Division's front counter manual and a selection of Arizona State Statues related to building permit and inspections

Inspection/Permit Revenue

By Millions

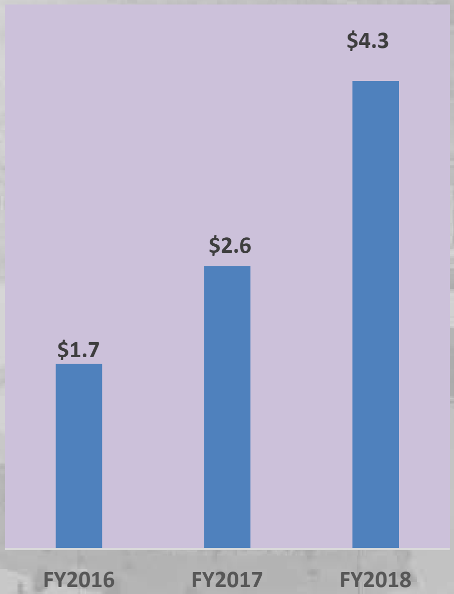


Chart Source: Munis COS Revenue Summary by Dept. Report

Detailed Observations – High Risk

Observation	Recommendation	Management Response
1 – A detailed vendor proposal addressing assessment needs should be accepted and signed off by the Division and applicable process owners before the LIS replacement agreement is approved and executed. The Division uses LIS to track building permits, inspections, and related information. LIS also support other City departments' activities. Security concerns with operating LIS include, but are not limited to: • Lack of audit logs to track changes to data tables • User access privileges allow over 80 employees under the Permit Entry group to write to tables, online permits, write permits, and change fees. • LIS tables tie across the database. Access to the Permit Entry group provides access to building permits, engineering, and potentially high dollar transactions. The Division is aware of the need for a LIS replacement system. In January 2014, the City retained a firm to provide enterprise resource planning (ERP) consulting services. The firm assessed the City's comprehensive software needs and assisted the City in selecting an ERP software solution. The "Needs Analysis Report" issued by the firm on May 14, 2014, pp15-19, identified the Division's primary requirements. Page 32 of the "Needs Analysis Report" identified LIS limitations, including but not limited to the need for duplicate data entry into LIS and Munis that might result in data integrity concerns. Since 2015, the City has spent approximately $323,854 on a LIS replacement system (software maintenance fees $183,375 and implementation fees $140,479.) In 2017, after approximately 20% implementation of the LIS replacement system, Division concerns related to the vendor's ability to perform required customization and the high technical level of the vendor's proposal without much detail resulted in a breakdown in communications and the project stalled. On August 8, 2019, the LIS replacement system license was canceled and the software vendor issued a $286,761 credit to the City. A vendor's detail response to the needs assessment should be accepted and signed off on by the applicable departments before the execution of the purchase agreement. ***Risk:*** • Potential disruption in operations and lost data if LIS crashes • Lack of return on resources expended on partially implementing the canceled LIS replacement system license • Data entry redundancies create an inefficient use of staff hours	**The Division should:** A. Work in conjunction with the appropriate City departments to assess an alternative to LIS. A representative from departments significantly impacted by the LIS replacement system should be a part of the discussion. Impacted departments should sign off on the acceptance of the selected alternative as it relates to their unique department needs. IT and Finance should be involved in the discussion and implementation process from the being through the implementation go-live date. Staff should consider the current LIS limitations when assessing a potential LIS replacement system. If possible, the potential LIS replacement system should include functionalities to reduce or eliminate the need for data entry redundancies.	**A. Partially Concur.** When the determination was made to move forward with an new enterprise application, it was also determined that upgrades to LIS should cease. Community Development is in need of an upgraded system that will provide greater external security, more comprehensive audit logs, and more automation to eliminate as many manual steps as possible and provide a better customer experience. To say that all staff has access to edit tables and changes fee does not provide a complete picture. Community Development does not have administrator rights to the system. Further, to use the term database table universally is a misnomer. Most of the staff can edit the front end tables as an end user. This is not uncommon in enterprise applications. Management certainly believes this activity should be tracked through audit logs, However, the vast majority of staff does not have access or the expertise to make changes to back end data tables where the fees are programed into the system. As evidence to that fact, anytime there is a fee change, staff must coordinate that change through IT with the vendor. If those changes could be implemented by staff, coordinating with IT would be unnecessary. With respect to the enterprise application that was selected in 2014, There was not a breakdown in communications, rather CD staff realized the selected vendor could not provide the functionality they promised that is currently provided by LIS. Despite numerous attempts by the City and their paid consultant, CD did not receive satisfaction from the vendor. CD staff did extensive research with municipalities currently using the selected vendor. Staff determined the other cities experienced delayed implementation, additional staff was needed to compensate for a lack of functionality, additional direct IT support was needed from internal staff and customer wait times increased. The vendor's level of customer service was substandard and it was determined the vendor was unwilling and unable to meet the needs of the City of Surprise.

Detailed Observations – Moderate Risk

Observation	Recommendation	Management Response
2 – Permit payments should be updated in LIS in accordance with the Division's policy and procedures. The Division transactions such as building design, building permit and civil Engineering submittal fees are initiated in LIS by the Division's customer service counter staff. Payments are accepted, processed, and deposited by Finance central cashiers. The Munis cashiering module used by the central cashiering area is not integrated with LIS. In October 2018, LIS contained 348 Division transactions totaling $4,021,731 for which no payment information was recorded in the LIS "Paid Date," "Finance Receipt Number," "Check Number" or "Method of Payment" fields. The record creation dates range from April 2002 to October 2018. The calendar year 2012 reflected the highest number of LIS records without payment information recorded, 57 LIS transactions totaling $3,136,357 (78% of $4,021,731). A 5% (18 out of 348) sample review of transactions identified an inconsistency in the manual updating of payments information in LIS. During the audit, staff researched, identified, and updated payment information in LIS for five out of 18 transactions. The Division's Information Desk Procedures 2.d. requires staff to enter building permit payment information in LIS upon receiving the cashier payment receipt. The procedures do not require daily reconciliation of payments posted in LIS.	**The Division should:** A. Work with Finance to formulate an action plan to assess the validity of LIS invoices without updated payment information. Staff should consider the age of the transaction, amount, and cost-vs-benefit when determining what action to take in LIS. Staff should consider the potential impact of the action plan on the data migration to a new system. The action plan should be documented and authorized by management.	A. Partially Concur. It should be noted that LIS or any other Community Development Software package is not a financial system and does not process financial transactions, it generates an invoice and once paid, staff makes a manual entry to memo it was paid. CD staff does not have access to change information in the general ledger. Another control in place is the segregation of duties between the permit issuance by CD staff and the receipt of payment by Finance staff. CD staff is required to obtain the payment receipt from the customer prior to issuance of the permit. Payments are processed through the cashiering system that is integrated with the general ledger. System limitations have been identified by staff and controls such as the one described above, have been developed to mitigate the financial risk. The general ledger is the source database for payment transactions. A primary goal of the new permitting software is integration with the financial transaction software, therefore removing as many manual steps related to documenting and processing of transactions. Further, all records will be maintained within the two systems rather than paper files that exist on the CD side today. Since LIS is not completely automated, paper files still exist for every permit that is issued. Therefore, to rely on the database exclusively for data may not provide complete answers. To that end, Finance and CD staff identified 69 records from 2016-2018 identified by IT that lacked payment information in LIS. Staff was able to verify payment information via Munis and hard copy paper files for 65 of those records. The remaining four records did not have a permit issued. It should also be noted that many of the 348 permits were City projects and Engineering permits and would not have had the requisite data within LIS. Finance regularly reconciles LIS information with Munis which is the general ledger - financial Software. Staff is aware that on occasion the manual step to update the permit transaction as "paid' is being missed, and is providing ongoing training to mitigate the issue until enhanced software is implemented.
The City FY2011 Comprehensive Annual Financial Report (CAFR) identified a need to reconcile LIS building permit revenue. In 2012, Finance staff began reconciling permit payments processed in Munis cashiering module to the Division's paid transactions reflected in LIS. ***Risk:*** • The inconsistency in payment posting might create errors and lead to misinterpretation of LIS data. • Inconsistency might increase time and cost to migrate to a new system.	B. Consider implementing a procedure to reconcile LIS daily payment postings to the Munis cashiering system. Daily reconciliation will increase the potential of identifying and addressing errors on the day that they occur versus quarterly.	B. Partially Concur. During 2011 the lack of integration between the LIS software and the general ledger was identified as a weakness in internal control. Finance, CD and the external auditors worked together to establish mitigating controls to compensate for the lack of system controls. A reconciliation process was established and Finance and CD have been performing this reconciliation. Once a new system is implemented, a new process will be established based on the functionality and controls of the new system. Division staff and Supervisors will review permits issued on a daily basis to ensure that the LIS system is properly updated to reflect the payment status of permits.

Observation	Recommendation	Management Response
3* – Database tables should reflect the most current information and limit data redundancy when possible.** The City-wide Fee Schedule (Schedule) reflects the current fee rates approved via resolution by City Council. Changes to the Division's fees are updated in LIS tables by the IT GIS Manager with assistance from the vendor, when necessary. The Division's staff test changes to LIS fee tables in a test database before changes are updated in the production database. A random sample of 29 Division fees associated with 20 LIS fee table queries was reconciled to the current Schedule and resolutions 2017-092, 2016-062, 2010-23, and 2012-01 for accuracy and completeness. The review identified: • Duplication of data in fee tables (example: Fee Table Queries 4k and 4j) • Inactive fees dating back to 1970 reflected as current (example: Fee Table Queries 4n Permit C of Fee Rates and 4a Permit Fee List) • Discrepancies between the Schedule, resolutions, and LIS fee tables unit of measure and descriptions (example: Fee Table Queries 4o Streamline Fee Rates) A procedure is not in place to periodically conduct a comprehensive review of LIS fee tables for discrepancies and to ensure data quality. Three characteristics of data quality include: • Accuracy – LIS fee tables free of discrepancies • Completeness – Consistency in fee descriptions and unit of measure • Timeliness – LIS "End Date" updated to prevent the potential use of inactive fees ***Risk: • Potential error in customer billing if inactive fee selected • Increased potential of data inconsistency if duplicate data is not updated in all required fields	**The Division should:** A. At least annually, request a printout of the database fee tables from IT and perform a comprehensive review of the tables for accuracy and completeness. The LIS "End Date" field should be updated when fees expire. Any corrections should be submitted to IT for processing. **IT Department should:** B. Work with the developer to address database duplications, such as in the LIS Development Fee and LU_Flat_Fee tables. Assess how redundancy in tables might impact future data migration efforts, time and impact of making adjustments now. Any potential updates should be discussed with the Division.	A. Concur. The Division will develop a review process to ensure tables are accurate and complete, and will update the system when fees expire. The process will be developed by April 1, 2020 and the review will be completed by June 30 2020. B. Partially Concur. The duplicates will be addressed (analyzed and fixed as necessary) as part of the data migration to the new system working with the Division.

Appendix A – Data Reliability and Risk Rating

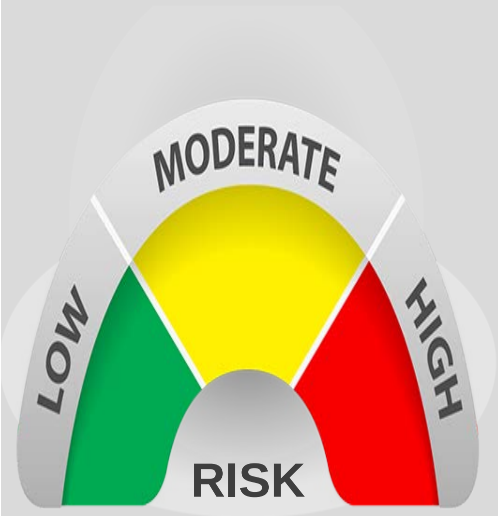
Data Reliability

The data utilized for the work performed was either obtained directly from Munis or LIS table queries generated by IT or the Division staff. IA used LIS invoice numbers, permit numbers, Munis cashiering charge codes, and general ledger numbers to trace random samples of transactions from LIS to Munis general ledger to verify data provided by staff.

LIS and Munis cashiering paid permit data are reconciled quarterly by Finance. Munis data reliability is materially verified annually via the audit of the Munis financial reports and the CAFR performed by the City's external auditor.

Internal Audit determined the Division's paid permit data utilized is sufficiently reliable given its intended use to verify paid LIS records against Munis general ledger.

Audit Observation Risk Rating



Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:

- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.

- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.

- Low – Represents an observation for consideration by management for correction or implementation associated the process being audited. Low-risk observations should be implemented to improve efficiency and effectiveness of operations.

Appendix B – Standards and Acknowledgements

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). 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 on our audit objectives.

This project was not intended or designed to be a detailed study of every relevant procedure, system, or transaction. As such, the conclusion and recommendations contained in this report might not include all areas which might need improvement.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Acknowledgements

IA appreciates the time City staff contributed to this review. IA would like to take this opportunity to thank all of the departments and individuals involved in the Building Safety Permit Processing Audit for their considerable cooperation.

We received input and assistance from the following:

- Community Development (Development Services)
- Information Technology
- Finance

Auditor: C. Holley

Surprise Internal Audit

Vision

The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.

Mission

To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

For more information or to contact Internal Audit:
https://www.surpriseaz.gov/2561/Internal-Auditor

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: August 12, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No   Regular: Yes   Public Hearing: No   Report/Discussion: No

Agenda Wording:

Discussion and action pertaining to the Land Information System Plan Review and Permit Records memo.

Motion:

I move to approve and distribute the Land Information System Plan Review & Permit Records memo.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. Final Permit-Engr Invoicing12Dec19

Land Information System
Plan Review and Permit Records
Engineering Department

SURPRISE
ARIZONA

September 16, 2019

Background Summary

As part of the FY2019 Annual Audit Plan, an audit of the Development Services building permit process was conducted. While reviewing the Division's Land Information System (LIS) transactions, Internal Audit (IA) noticed a group of LIS transaction processed under the Engineering Department (Engineering) that were out of the scope of the Division's audit. IA meet with Engineering staff to discuss the procedures for processing and monitoring the transactions.

The audit objectives included assessing controls and management over plan review and permit records initiated in the legacy Land Information System (LIS). The LIS is a standalone system used by Development Services and the Engineering Department (Engineering) to create and manage building and development plan review and permit records. Development Services, in conjunction with applicable City departments, is currently assessing replacement options for LIS.

Since FY2012, the Finance Department (Finance) has been reconciling LIS payment records to Munis. In addition to Finance reconciliation procedures, Engineering staff review LIS Engineering plan review and permit records for completeness, accuracy, and proof of payment.

An October 18, 2018 query of LIS for Development Services data identified 309 out of 657 ($1.6 million out of $5.6 million) plan review and permit records related to Engineering, created between November 2002 and October 2018, that were not updated with payment or cancellation information. Projects completed by the City did not always reflect a journal entry number indicating reallocation of the project cost to the applicable City department. The inconsistency in recording journal entry numbers in LIS was contributed to a change in an accounting procedure. The current reconciliation and review procedures do not include a process to review LIS records with a permit "Issued" status and without updated payment information.

Internal Audit tested a random sample of 4.5% (14 out of 309 plan review and permit records) of Engineering plan review and permit records and confirmed an inconsistency in the manual updating of payment information in LIS. Recommendations to follow include establishing consistent procedures in recording payment information.

Random Sampling Results

Comments	Count	Summary Invoice Total
Payment information updated or invoice paid after audit fieldwork	3	$59,542
Unable to locate invoice information or confirm payment status	5	$18,015
Internal City Project - Journal Entry Not Recorded	1	$ 2,040
Service provided - Invoice not paid	2	$258
Service not provided	2	$24,437
Paid under different invoice	1	$4,225
Total	*14*	*$108,517*

*Includes Engineering and Building Permit invoices. LIS classification requires a detail review of LIS screens to determine if transactions are related to Engineering or Building Permit invoices.

Engineering Invoices Without Payment Information
(November 2002 to October 2018)

Type	Sum of Invoice Total	Invoice Count
*Case	$133,702	123
Engineering -	$1,423,697	118
Engineering – Review	$51,462	68
Grand Total	**$1,608,861**	**309**

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Recommendation

Observation/Criteria/Risk	Recommendation	Management Response
<u>Observation/Criteria</u> Development Services and Engineering staff initiate LIS records and invoices. Payments are then processed in Munis system by Finance central cashiers. LIS and Munis are not integrated; therefore, payment information recorded in Munis requires manual entry and application to the appropriate permit number in LIS by staff. Permits are provided to the applicant after payments are received. The “Status” field is updated in LIS as an indication of receipt of payment. Formalized and documented policies and procedures are not in place requiring staff to review LIS plan review and permit records with a permit “Issued” status and without updated payment information. Informal procedures are in place to identify invoices and permits recorded in LIS and not picked up by customers. During the audit, Finance published an operating procedure for accounts receivable (A/R) that requires each department to implement internal controls including A/R reconciliation and reviews when involved in billing on behalf of the City. <u>Risk</u> The lack of documented LIS policies and procedures creates an environment in which records are maintained and processed inconsistently. The inconsistency might create errors and misinterpretation of LIS data. With the pending replacement system purchase and implementation, inconsistency in data might increase the time and cost to migrate data to the new replacement system.	<u>Engineering should:</u> 1. Work in conjunction with Finance to develop a plan for assessing the status of LIS Engineering plan review and permit records updated with a permit “Issued Date” and without updated payment information. When formulating a plan of action, staff should consider the age of the plan review and permit records, amount, and the cost-vs-benefit of updating LIS when determining a course of action. Staff should consider the potential impact of the action plan on the potential data migration to the replacement system. The action plan should be documented and authorized by management. 2. Obtain and review a copy of the Finance A/R procedure and implement controls to ensure timely reconciliation of plan review and permit records and ensure compliance with the procedure. 3. Develop and document policy and procedure for monitoring invoices generated and pending payment and permit pickup.	Concur. The Development Review Engineering Manager will work with the Finance Department to document the process for assessing the validity of LIS Engineering transactions when updating the permit status from "Issued" to "Paid" in the system. The action plan will be documented and authorized by management by the beginning of FY2021 (July 1, 2020). Concur. The Development Review Engineering Manager will obtain a copy of the Finance A/R control policy, and provide training to appropriate staff to ensure compliance with the policy. This action will be completed within 6 months of obtaining the Finance A/R control policy. Concur. The Development Review Engineering Manager will develop and document a policy and procedure for monitoring invoices generated and pending payment and permit pickup by the beginning of FY2021 (July 1, 2020).

Audit Standard Statements

Non-Audit Services

The work detailed in this report was identified during the process of performing the Building Safety Permit Processing audit. The work performed related to Engineering does not constitute an audit as defined by and conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). The work performed on the LIS transactions related to Engineering by itself or in aggregate with other non-audit services provided does not create any threats to the independence of the Internal Audit (IA) function.

This review was not intended nor designed to be a detailed review of every relevant procedure, system, or transaction related to Engineering LIS transactions. As such, the conclusion contained in this report may not include all areas which may need improvement.

Data Reliability

The data utilized for the work performed was primarily obtained directly from LIS, the City's geographic information system for cadastral, land-use mapping, and managing building and development projects. Since FY2012, LIS paid invoices have been materially verified by Finance through reconciliation procedures of LIS paid invoices against Munis. Annually, Munis financial statement reports are audited via the CAFR performed by the City's external auditor.

IA determined the data utilized is sufficiently reliable for reconciling LIS plan review and permit records to Munis general ledger.

Acknowledgements

IA appreciates the time City staff contributed to this limited review. IA would like to take this opportunity to thank all of the departments and individuals involved in the LIS Transaction review for their cooperation.

We received input and assistance from the following departments/divisions:

- Public Works (Engineering)
- Community Development
- Finance

Auditor: Carol Holley

Surprise Internal Audit

Vision

The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.

Mission

To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

For more information or to contact Internal Audit: https://www.surpriseaz.gov/2561/Internal-Auditor

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: August 12, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No   Regular: Yes   Public Hearing: No   Report/Discussion: No

Agenda Wording:
Discussion and action pertaining to the Ottawa License Agreement report.

Motion:
I move to approve and distribute the Ottawa License Agreement report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:
The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:
Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:
This item relates to work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:
There is no budget impact associated with this item.

FTE Impact:
There is no FTE impact associated with this item.

ATTACHMENTS:
1. Ottawa License Report 25Mar2020

DRAFT

SURPRISE
ARIZONA

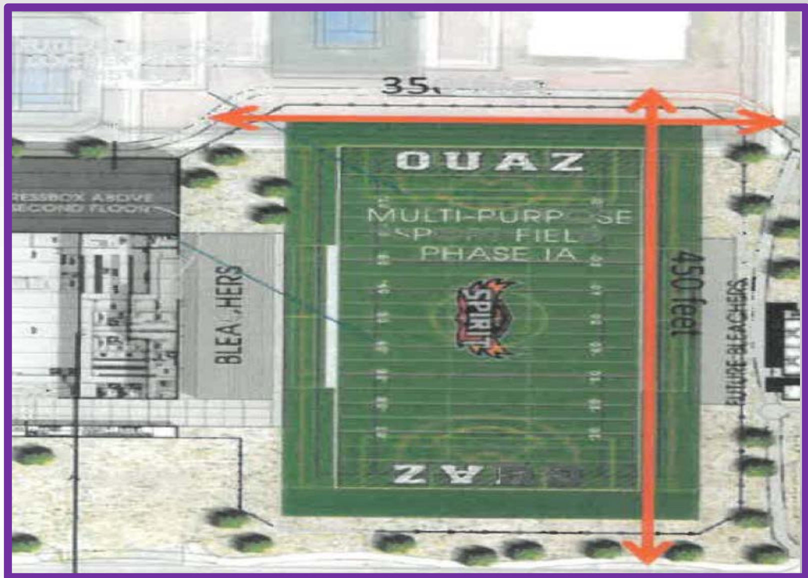
Sports & Tourism
Temporary License Contract
(Pre-Construction Access)

January 27, 2020

DRAFT

Table of Contents and Scope

Nonexclusive Temporary License to Enter Agreement Continuous Review Summary



Purpose and Scope

As part of the approved FY2020 Annual Audit Plan, Internal Audit (IA) selected the Sports & Tourism Nonexclusive Temporary License to Enter contract for audit. The objectives of the audit were to:

- Determine whether the contract terms were complied with.
- Determine whether the contract was executed in compliance with City of Surprise (City) policies and procedures.

IA performed the following procedures as part of the audit:

- Reviewed monthly rent payment trends recorded in Munis for the period of October 2017 to April 2018
- Reviewed and discussed the contract and amendment terms, conditions, and retention procedures with Sports & Tourism, Finance, and the City Clerk's Office
- Reviewed applicable City procurement and records retention policies and procedures

DRAFT

Executive Summary

Summary and Conclusion

The City entered into a pre-construction access license contract with Ottawa University (Ottawa) on March 30, 2017. The agreement granted temporary right and privilege of ingress and egress over a paved driveway owned by Ottawa and the City at the northwest corner of North Civic Center Drive and West Tierra Buena Lane, the site of the future athletic complex completed in 2019.

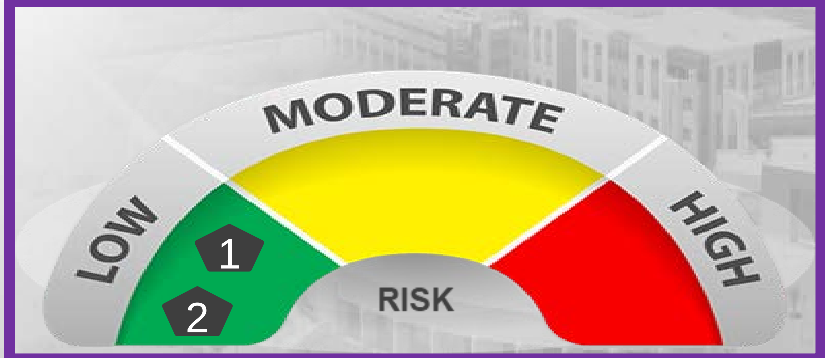
The contract granted Ottawa access to enter and exit the paved driveway jointly owned by Ottawa and the City, for which the City has the majority ownership. The terms of the contract allowed Ottawa access to the City-owned portion of the shared driveway to conduct soils testing, surveying, preparation of construction plans, conducting at risk grading, excavation, and similar activities.

The rights and privileges granted in the contract were effective as of February 1, 2017. Two contract amendments were issued to amend the original agreement on May 18, 2017 and July 26, 2017. The second amendment added a monthly rent component to the contract. A total of $16,673.30 in monthly rental income was collected under the contract for the periods of October 2017 to April 2018. The contract expired on March 20, 2018, when the Ottawa land agreement was executed.

Audit procedures performed by IA determined contract terms and conditions were complied with. The contract was processed in compliance with City policies and procedures. No high-risk exceptions were noted. Opportunities were identified to strengthen the language in future contracts by stating a specific payment due date and including a late payment penalty clause. Refer to the Detailed Observation section starting on page four of the report for additional information.

Opportunities for Improvement

1. Contract payment terms are not always explicitly expressed..………………….. *Page 4*
2. An official copy of contracts and amendments should be provided to the City Clerk's Office for filing as part of official City documents.…………………………………………..*Page 4*



Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions in Appendix A.

DRAFT

Detailed Observation

Low Risk

Observation	Opportunity for Improvement	Management Response
1. Contract payment terms are not always explicitly expressed. The second amendment to the Nonexclusive Temporary License to Enter was executed on July 26, 2017. Section 1.3 of the amendment incorporated a "monthly rent" in the amount of $2,381.90. A specific payment due date and a late payment penalty clause were not included in the contract. Contract language should explicitly express all pertinent terms of the agreement. **Risk** • Potential delay in receipt of monthly rental revenue	**Sports & Tourism should:** 1. When applicable, ensure all future contract language explicitly express all pertinent terms of the agreement including, but not limited to: • Specific payment due date • Late payment penalty clause	Concur. The Business Administration Manager will develop a policy and procedures in coordination with the appropriate City department by June 30, 2020 to ensure that when applicable, all contract language will include specific due dates for payments and a late payment penalty clause.

Observation	Opportunity for Improvement	Management Response
2. An official copy of contracts and amendments should be provided to the City Clerk's Office for filing as part of official City documents. A copy of the Nonexclusive Temporary Lease contract, amendments, and signature delegation memo were not saved in the City Clerk's Office Laserfische database. During the audit, a copy of the documents was provided to the City Clerk's Office for filing. Sec. 2-162, Powers and Duties of Office, of the municipal code, requires the City Clerk's Office to keep and maintain official copies of City documents, including contracts. **Risk** • Potential increase in the time required to respond to a Public Records request	**Sports & Tourism should:** 2. Ensure copies of contracts, amendments, and applicable signature delegation memos are submitted to the City Clerk's Office for filing**.**	Concur. The Business Administration Manager will develop a policy and procedures for the Sports & Tourism department by June 30, 2020 to ensure that all applicable documents are submitted to the City Clerk's Office.

DRAFT

Appendix A – Standards and Acknowledgements

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this audit included review and testing of the design, implementation, and operating effectiveness of key internal controls relevant to the audit's objectives. In accordance with GAGAS, IA verified the audit objectives and related controls identified address all 17 principles of the COSO framework. Though some control weaknesses were identified and are included in the Detailed Observations section of this report, none rose individually or cumulatively to the level of a Risk Division or city-wide internal control deficiency.

This project was not intended or designed to be a detailed study of every relevant procedure, regulation, or transaction. As such, the conclusion and recommendations contained in this report may not include all areas which may need improvement.

Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:

- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.
- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.
- Low – Represents an observation for consideration by management for correction or implementation associated the process being audited. Low-risk observations should be implemented to improve efficiency and effectiveness of operations.

Acknowledgements

IA appreciates the time City staff contributed to this project. We received input and assistance from the following:

- City Clerk's Office
- Finance-Procurement
- Sports & Tourism
- Risk Management
- Development Services

Auditor: Carol Holley

Surprise Internal Audit

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Mission: To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

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CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: August 12, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:
Discussion and action pertaining to the Workers' Compensation audit report.

Motion:
I move to approve and distribute the Workers' Compensation report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:
The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:
Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:
This item relates to work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:
There is no budget impact associated with this item.
FTE Impact:
There is no FTE impact associated with this item.

ATTACHMENTS:

1. Audit Report - Workers Compensation FINAL

SURPRISE
ARIZONA

Workers' Compensation Internal Audit Report

December 19, 2019

Table of Contents

Image Source: City of Surprise Risk Division Manual

Executive Summary and Observations

Executive Summary

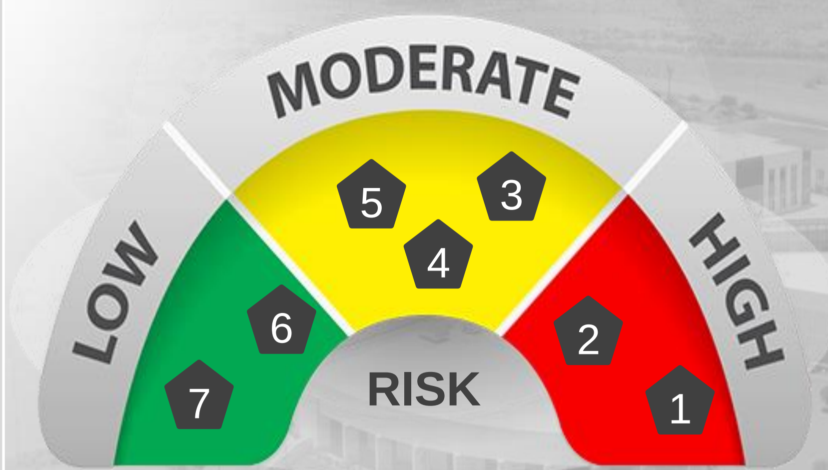
The Risk Division (Risk) of the City of Surprise (City) has administered the City's self-insured workers' compensation (WC) program since it's inception in Fiscal Year (FY) 2017. Risk Analysts guide employees experiencing a WC injury through the duration of a claim from initial triage and claim acceptance, through ongoing medical, rehabilitation, or pharmacy treatment if necessary, to claim settlement and closure and have achieved significant cost savings compared to the City's participation in a risk pool prior to FY18.

In FY20, Internal Audit (IA) assessed the design and operating effectiveness of internal controls around WC claims management focusing on effectiveness and efficiency of the WC processes, safeguarding of financial assets, adequacy of information technology, and compliance with regulations. The procedures performed indicate that defined controls exist around claim management and required documentation retention, regulatory compliance, and city-wide payment processing to materially ensure the accuracy and completeness of the WC process. No material deficiencies in the Division's internal control structure were noted. Observations were identified related to establishing claim review and reconciliation procedures, formalizing procurement and efficient payment processes, protecting Personal Identifiable and Personal Health Information (PII and PHI), and enhancing documentation of policies and procedures.

Observations

1. The Risk Division should formalize and document procurement relationships with frequent providers. *(Page 5)*
2. The Risk Division should establish effective claim review procedures. *(Page 6)*
3. Claim-related expenses should be reconciled between Munis and Origami. *(Page 7)*
4. Claim settlement payments should be made in a cost-effective manner according to City policy. *(Page 8)*
5. Management should develop and document a Risk / Legal Accounts Payable procedure manual. *(Page 9)*
6. The Workers Compensation Claim Manual should be updated to align with current procedures and environment. *(Page 10)*
7. PII and PHI should be protected and shared with only individuals requiring the information. *(Page 11)*

Observation Risk Rating



Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions in Appendix A.

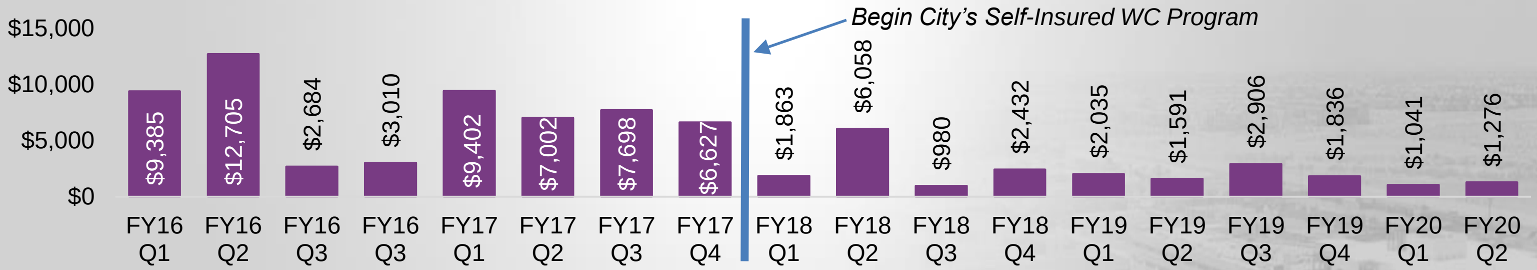
Background, Objectives, and Scope

Background

WC is a federal program administered by each state to provide benefits to employees injured on the job. In Arizona, the Industrial Commission of Arizona (ICA) regulates WC guided by Arizona Revised Statutes (ARS) and Administrative Code. The City registers with the ICA as a self-insured employer allowing the City's three person Risk Division to administer WC claims internally and pay reduced cash rates for services. This resulted in significant savings over the City's pre-FY18 membership in a risk pool (see chart below).

Risk utilizes a third-party claims management software, Origami, for claim processing; recording status, activity, and reserves; and recordkeeping; while the City's enterprise system, Munis, is used for processing payments for services. When the City implemented self-insurance in FY18, budgetary assumptions, procurement practices, and division procedures were based roughly on expectations developed while being a member of Arizona's Municipal Risk Pool. Now that the program is nearing completion of it's third year, sufficient data and experience exist to reassess and enhance policies and procedures and budget and reserve assumptions.

Average Cost Incurred for Workers' Compensation Claims*



**Note: The chart does not include any incidents (no incurred cost) or WC claims which had $0 incurred cost.*

Audit Objectives

1. Determine whether WC practices are in place to provide reasonable assurance that:
   a. Applicable policies, laws, regulations are complied with and best practices are in place
   b. Claim payments are accurate and authorized
2. Evaluate processing procedures based on a sample of claims.

This audit did not comprehensively review regulatory requirements and is not intended to conclude the City is in compliance with all applicable regulations.

Scope / Methodology

The scope of the audit was for the period of July 1, 2017 to October 30, 2019. Procedures included:

- Interviews and discussions with Risk, Human Resources (HR), Information Technology (IT), and Finance personnel
- Review of WC-related policies and procedures
- Analysis and sample-based testing of Munis and Origami data and supporting documentation around WC claims and invoices
- Testing of the design, implementation, and operating effectiveness of key internal controls relevant to the objectives

Detailed Observations – High Risk

Observation	Recommendation	Management Response
1 – The Risk Division should formalize and document procurement relationships with frequent providers. Employees seeking medical treatment for a WC claim are able to select a provider of their choice, through there are a number of frequently used providers the City has developed relationships with. The Risk Analysts may negotiate discounted rates with these providers for cost savings beyond the maximum rates medical providers can bill self-insured employers as set by the ICA fee schedule. Though Risk is exempt from the City's procurement code, City-wide best practice is that Purchase Orders (PO's) should be utilized for vendors with an annual spend greater than $5,000. Insurance-related payments are outside the scope of the City's procurement code and Risk has not established their own procurement procedures. Based on testing and inquiry performed: - For six of 132 vendors analyzed, no PO was established and the vendor had annual spend for one or more fiscal years exceeding $5,000 and had continued spend on track to approach or exceed $5,000 in FY20. - There is not a consolidated list of negotiate rates, and very few vendors have Letters of Agreements with the City detailing the negotiated rates utilized. ***Risk:*** • Opportunity for fraud or waste of city resources • Provider disagreements could result in increased cost	The Risk Division should: A. Consolidate and formalize discounted payment rates with vendors. The following considerations should be included: - Establish Letters of Agreement with vendors whenever possible - Store comprehensive list of negotiated rates and contact information in a shared location in easily searchable format - Review and audit list of negotiated rates at least annually to identify any errors, expired offers, or omissions. B. At least once every two years, perform an analysis of vendors and their annual spend to: - Establish PO's for frequently utilized vendors. - Identify frequently used vendors to formalize price agreements with via Letters of Agreement.	A. ***Concur.*** Risk Management will continue to update its comprehensive provider list in Excel and will include an annual review of rates in its Worker's Compensation Claims Management Manual. Risk Management is currently working with and Procurement and other applicable departments to begin formalizing provider agreements. Anticipated completion - FY21 B. ***Concur.*** Risk Management continues to compile a complete list of providers and is working to identify which providers will require a purchase order(PO). Risk Management will have FY21 PO's in place before July 01. In addition, Risk Management is working with providers to obtain current W9's to create and/or update vendor files.

<table>
<tr><th>Observation</th><th>Recommendation</th><th>Management Response</th></tr>
<tr>
<td>2 – The Risk Division should establish effective claim review procedures

Due to the unique nature of each WC claim, Claims Analysts have significant autonomy to process claims in the most efficient manner. The WC Claims Manual includes a list of documentation each claim file must include and outlines the Risk Manager’s role to supervise and escalate claims, collectively extrapolate and monitor claim reserves monthly, and review claims “when the total initial proposed reserve exceeds $25,000 or at any point in the life of the file.”

The Risk Division threshold for review of $25,000 is too high to be valuable as it currently captures less than one claim per year. There are currently no thresholds that would trigger a supervisor review based on the amount of time a claim is open. With turnover in the division, regular department round tabling sessions have been inconsistent.

Through testing performed, the following were noted:
- For two claims out of 20 tested, Claim Acknowledgement Letters were not completed and provided to the employee.
- For two of 20 claims tested, through a Notice of Claim Status was completed as per Arizona regulations, the form was stored on the Risk Analyst's desktop instead of Origami.

Risk:
• Inconsistent or inaccurately processed claims
• Improper retention of key claim documentation</td>
<td>The Risk Division should:

A. Formalize and establish regular supervisor review of claims or a peer review / round tabling process to ensure consistent handling of claims between Risk Analysts. Considerations should include:
- Risk Manager should audit a selection of closed claims from each Risk Analyst quarterly (e.g. verify correct documents are uploaded)
- Document thresholds to round table or review any open claims greater than 90 days and $5,000
- Establish shared tracking procedures for action items resulting from claim reviews to track timely resolution by assigned Risk Analyst
- Perform quarterly review of reserve amounts calculated and provided to actuary</td>
<td>

A. Concur. Risk Management will update its Worker's Compensation Claims Management Manual to include an audit of 20% of closed claims on a quarterly basis, in addition to reviews of reserve amounts. In addition, Risk Management will hold bi-monthly round tables on claims 90 days old or older, as well as, claims that exceed $10,000. Risk Management will expand its use of the calendaring function in Origami Risk for the timely resolution of claims. Anticipated completion - FY21</td>
</tr>
</table>

Detailed Observations – Moderate Risk

Observation	Recommendation	Management Response
3 – Claim-related expenses should be reconciled between Munis and Origami. Claim-related expenses are recorded in both Origami for claim management and Munis for payment processing. The City's Comprehensive Financial Management Policies require that "an actuarial evaluation will be performed annually to determine the IBNR claim liability [which] represents the cost of unpaid claims." Quarterly, the Senior Claims Analyst establishes reserves for each open claim on the Loss Run Report based on notes and expenses incurred per Origami and professional judgement of future anticipated medical procedures to provide to the City's actuary. The completed actuarial report is utilized to determine Trust Fund reserves required and to report IBNR on the City's financial statements. Munis and Origami are not linked to allow for automated data validation and invoices processed by Risk do not contain consistent reconciling fields to be compared to Origami (e.g. claim number). Through testing performed, the following were noted: - Reconciliation between payments in Munis and claim expenses recorded in Origami is not performed and Origami records are an input to the IBNR. - For 10 of 20 invoices tested, a claim number or other unique identifier was not included to allow the invoice in Munis to be connected to the claim in Origami ***Risk:*** • Claim reserves calculated may be inaccurate • Payments for services may be missed or delayed	The Risk Division should: A. Include Origami Claim Number with all invoices in standard, searchable field in Munis to allow for generating reports for reconciliation to Origami. B. Work with Finance to develop a reconciliation process between claim payments in Munis and Origami to be performed at least annually.	A. ***Concur.*** Risk Management will begin entering the claim number into the description field for direct payments and p-card transactions. Anticipated completion - complete B. ***Concur.*** Risk Management will begin entering the claim number into the description field for direct payments and p-card transactions. According to Finance, this field is searchable and will allow for reconciliation of invoices between Origami and MUNIS. Anticipated completion - FY21

Detailed Observations – Moderate Risk

Observation	Recommendation	Management Response
4 – Claim settlement payments should be made in a cost-effective manner according to City policy. In FY17, Risk Analysts frequently drove to medical provider locations to negotiate, form relationships, and pre-pay for services to obtain the lowest possible rates. Since then, frequent providers have been identified, city Purchasing Card (P-Card) policies are well established, and electronic billing has been expanded, so the need to physically pay for services on-site has diminished. The City's Employee Policy Manual (EPM) states: "Whenever practicable, employees must use City fleet vehicles for all City business." Additionally, thorough supporting documentation for expense reports showing evidence of trip taken is required, and the Risk Manager reviews expense reports. Risk procedures have not previously been established to align with the EPM. Based on testing performed, the following were noted: - For one of two employees tested, expense reports for mileage to pay for medical services totaled approximately $1,500 in FY19. - For three roundtrips, an invoice was paid at the provider's location 12 miles away but expense report mileage was billed to the location 30 miles away). - For four roundtrips tested, duplicate mileage requests from city hall were reimbursed for two employees attending the same meeting together. This finding could not be discussed with the involved employees as both terminated employment with the City before audit completion. ***Risk:*** • The City may incur unnecessary costs	The Risk Division should: A. Establish and document departmental procedures to include the following: - Compliance with Employee Handbook requiring use of fleet vehicles when possible. - Required documentation to support employee mileage reimbursements (e.g. evidence of necessity for travel and evidence trip was completed). - Thorough review of expense reports and supporting documentation. B. Perform an assessment of medical providers to identify and document: - Preferred payment method, and establish electronic remote payments if possible - Nearest location where payment for services are accepted	A. ***Concur.*** Risk Management will comply guidelines outlined in the Employee Handbook. In addition, Senior Risk Manager will complete a thorough review of all expense reports and support documentation prior to approval. Estimated completion - complete B. ***Concur.*** Risk Management will continue to update its comprehensive provider list in Excel. Preferred payment methods, electronic payments and payment locations will be included in these updates. Estimated completion - FY21

Observation	Recommendation	Management Response
5 – Management should develop and document a Risk / Legal Accounts Payable procedure manual. Risk pays approximately $16,000 of claim settlement payments each month covering medical, rehabilitation, and prescription services for employees experiencing a work related injury. In order to take advantage of cash rates offered to self-insured entities, payments are made both by P-Cards, reconciled by each Risk Analyst monthly, and checks, batched into Munis by the Civil Analyst. The Finance Department's Accounts Payable Guidelines state: "Each department is responsible for entering and approving invoices received from vendors within the City's financial system. It is each department's responsibility to enter and approve invoices in a timely manner so as to avoid late payments." Risk does not currently have a disbursements / accounts payable policy to establish consistent treatment of invoices among Risk Analysts and the personnel who input invoices into Munis. Based on testing performed, the following were noted: - For 2 of 20 invoices tested, the invoice did not contain sufficient supporting documentation to explain variances between paid and billed amounts or evidence of third party services provided. - For 3 of 20 invoices tested, the invoice was paid greater than 60 days after invoice received or 90 days after services were provided. ***Risk:*** • Inaccurate, late, or duplicate invoices may be paid.	Risk Division Management along with applicable Department payment processing personnel should: A. Develop and document an accounts payable procedure manual to include, but not limited to: - Escalation and documentation process for aging invoices (greater than 90 days) - Check handling and distribution procedures including when special handling is appropriate - Supporting documentation required (e.g. third-party invoice, explanation of paid rate differences from billed) - Consistent procedures for Invoice Number field in Munis - Protection / exclusion of PII and PHI on invoices in Munis - Required reviews and approvals	A. ***Concur.*** Risk Management will update its Worker's Compensation Claims Management Manual in FY21 to reflect aging invoice procedures, check handling procedures, rate adjustments, protection of PHI, as well, as required approvals. Estimated completion - FY21

Detailed Observations – Low Risk

Observation	Recommendation	Management Response
6 – The Workers Compensation Claim Manual should be updated to align with current procedures and environment. Risk has a WC Claims Management Manual which outlines "the responsibility of the Risk Management Unit to implement cost-effective measures and enhance communication with employees and agency personnel without jeopardizing benefits as provided by law." The Manual details documents required to process a claim and defines types of incidents and claims. The Division handbook has not been updated since the implementation of self-insurance in 2017. Thresholds for reviewing claims and procedures were based on past experience as a member of the municipal risk pool and Risk's body of work over the last three years has varied from those forecasts requiring policies to be updated accordingly. Based on inquiry and testing performed: - For all 20 claims tested, no root cause analysis was documented in Origami. - Recurring procedures performed (e.g. ICA re-certification of self-insurance, quarterly loss run report / reserve assessment) are not documented. - The $25,000 threshold for manager review of a claim has only been reached three times in three years. ***Risk:*** • Insufficient succession planning and potential loss of knowledge upon division turnover • Inconsistency of claim handling among Risk Analysts.	The Risk Division should: A. Update existing Risk Policies to include: - Claim specific procedures and instructions - Detail around annual and quarterly procedures (e.g. communicating with actuary, renewing ICA self-insurance certification, etc.) - Update materiality thresholds based on performance to ensure appropriate review and supervision - Remove language or requirements that are no longer applicable (e.g. requiring a Root Cause Analysis for every claim)	A. ***Concur.*** Risk Management will update its Worker's Compensation Claims Management Manual to reflect annual and quarterly requirements, approval thresholds and to ensure all requirements remain applicable. Estimated completion - FY21

Detailed Observations – Low Risk

Observation	Recommendation	Management Response
7 –PII and PHI should be protected and shared with only individuals requiring the information. Risk Analysts work with employee PII and PHI on a daily basis during the course of handling a claim and are trained in HIPAA protections. Employees with WC claims are also required to acknowledge HIPAA at the start of their claim. HIPAA requires an entity to protect the privacy of individual identifiable health information, including, but limited to social security numbers, birthdates, and medical data. The City's IT Department is undertaking a comprehensive HIPAA assessment in December of 2019 to enhance relevant controls and procedures. There is inconsistency between Risk Analysts on what information to include with an invoice in Munis. Additionally, procedures to redact PHI and PII from invoices have not been established. Based on inquiry and testing performed: - For 14 of 20 invoices tested, PII and / or PHI was included on an invoice saved in the Munis Accounts Payable module and accessible to a significant number of finance and other City personnel. - When the new Risk Manager started in a PII / PHI focused position, he had to request HIPPA training. Additionally, as of the start of the audit, the Civil Administrator responsible for entering invoices in Munis had not received the HIPAA training. ***Risk:*** • PHI and PII may be accessed by unauthorized individuals	The Risk Division should: A. Establish and document procedures to redact personal identifying information (Names, personal addresses, birthdays) from invoices to be scanned and stored in Munis. IT Management should: B. Ensure all City personnel who may work with protected information (PII or PHI) through the course of their work receive the City's HIPAA training, as well as implement any relevant opportunities identified as part of the HIPAA assessment performed in December 2019.	A. ***Concur***. Risk Management will update its Worker's Compensation Claims Management Manual to reflect compliance with PHI. Estimated completion - FY21 ***B. Concur.*** All City Attorney's Office personnel to include the Prosecutor's Office have been assigned both General HIPAA Awareness and HIPAA Supplemental training via Target Solutions with a due date of May 01, 2020. We are currently reviewing all other departments, with an emphasis on recently hired employees to ensure this training has been completed. This review will be complete and training assigned with a two week completion date by May 1, 2020.Once the final HIPAA Assessment report is received, we will review and make recommendations and assign tasks as appropriate. <u>*Risk Management Comment*</u> ***Concur.*** The Civil Administrator, responsible for entering invoices, has received a Target Solutions - HIPAA invitation and will complete it by 04/01/2020.

Appendix A – Data Reliability and Risk Rating

Data Reliability

The data utilized for the work performed was either obtained from Munis, the City of Surprise's financial system of record, or from the Risk Division's claim management system, Origami.

Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Comprehensive Annual Financial Report (CAFR) performed by the City's external auditor. Additionally, as part of testing procedures for this Workers' Compensation audit, IA performed testing on samples of claims, invoice payments, and supporting documentation and identified no errors or limitations in the data material in context of the work performed.

Internal Audit determined the data utilized is sufficiently reliable given its intended use.

Audit Observation Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:

- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.
- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.
- Low – Represents an observation for consideration by management for correction or implementation associated the process being audited. Low-risk observations should be implemented to improve efficiency and effectiveness of operations.

Appendix B – Standards and Acknowledgements

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this audit included review and testing of the design, implementation, and operating effectiveness of key internal controls relevant to the audit's objectives. In accordance with GAGAS, IA verified the audit objectives and related controls identified address all 17 principles of the COSO framework. Though some control weaknesses were identified and are included in the Detailed Observations section of this report, none rose individually or cumulatively to the level of a Risk Division or city-wide internal control deficiency.

This project was not intended or designed to be a detailed study of every relevant procedure, regulation, system, or transaction. As such, the conclusion and recommendations contained in this report may not include all areas which may need improvement.

Acknowledgements

IA appreciates the time City staff contributed to this review. IA would like to take this opportunity to thank all of the departments and individuals involved in the Workers' Compensation Audit for their considerable cooperation.

We received input and assistance from the following:

- Risk Division
- Information Technology
- Human Resources
- Finance

Auditor: Alison Matthees, MPA, CIA

Surprise Internal Audit

Vision

The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.

Mission

To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

For more information or to contact Internal Audit:
https://www.surpriseaz.gov/2561/Internal-Auditor

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: August 12, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No | Regular: No | Public Hearing: No | Report/Discussion: No

Agenda Wording:

Discussion and action pertaining to the Subrogation Error memo.

Motion:

I move to approve and distribute the Subrogation Error memo.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. Memo - Subrogation Error FINAL

Date: January 16, 2020
To: Mark Schott, Assistant City Manager
CC: Digger Oster, Risk Manager
From: Alison Matthees, Internal Auditor; Carol Holley, Senior Internal Auditor
RE: Subrogation Error – Risk Division

Background

While completing testing for the Worker's Compensation (WC) audit, Internal Audit (IA) noted an unusual subrogation / automobile (auto) insurance transaction associated with one of the WC claims. WC claims may be accompanied by auto insurance claims, which are also processed by the Risk Analysts in the Origami Claim Management System. Though auto subrogation was out of the scope of the WC audit, IA met with the Risk Analyst and Risk Manager to correct the transaction and identify the root cause.

Due to an automobile accident involving a police car, the vehicle was sent to an auto body shop for repairs totaling $2,665.05 as billed to the city on 11/26/2019. The invoice was sent to Travelers Insurance (Travelers), the other at-fault driver's insurance company with a subrogation demand package. On 12/10/2019, Travelers paid the city $2,789.90 for the subrogation claim, which was $124.85 in excess of the actual cost for the repairs. Based on the suggestion of the Travelers insurance agent, the City's Risk Analyst requested a second invoice from the auto body shop in the amount of $124.85 in increased cost (Invoice line item states "Labor Difference to Balance Out Claim") to match the Travelers payment. Best practice and City of Surprise (City) financial policy would indicate the best way to handle the transaction would have been instead to refund the excess payment to Travelers. The transaction was identified before the supplemental invoice was processed and payment made, so the Risk Analyst worked with Finance to cancel the secondary invoice and refund the overpayment to the insurance company on 12/23/2019.

Procedures Performed

<u>Inquiry and communication with Human Resources management</u>

IA discussed the error with the Risk Analyst on 12/19/2019 and again with the Risk Analyst and Risk Manager on 12/23/2019 once the refund had been processed.

<u>Review of Transaction Supporting Documentation</u>

Internal Audit reviewed the following documentation related to the subrogation demand:

- Origami notes detailing claim-related communication and action taken

- Original and supplementary invoices sent by the auto body shop
- Travelers reimbursement amount and City cashier's receipt
- Email communication between claims analyst, Travelers, and Finance
- Note: IA was unable to review the initial subrogation demand as documentation was not saved with the claim in Origami

The documentation for this claim was extremely thorough and the detailed notes kept by the Risk Analyst in Origami made it clear that the handling was a straightforward mistake; there was no intent by any parties involved to be less than fully transparent.

Conclusion

Based on inquiry and procedures performed, the subrogation error appears to be an isolated incident and has since been corrected. The root cause is likely a combination of factors including: the instance of an insurance overpayment had never occurred before and the Risk Division had a new Risk Manager hired in November 2019, so secondary review procedures and comfort in seeking supervisor feedback were still being established. The Risk Division should implement mitigating preventative controls to reduce the risk of future recurrence.

Recommendations

Risk Division Management should:

A. Implement a secondary review of incoming subrogation payments to verify the transaction is processed appropriately including, but not limited to:
   - All supporting documentation is saved with the claim in Origami

B. Consider implementing relevant recommendations from the forthcoming WC audit which are relevant to other claims processing including, but not limited to:
   - Establishing periodic supervisor reviews of ongoing and closed claims
   - Documenting enhanced policies and procedures

Management Response

A. ***Partially Concur***. Risk Management will ensure all supporting subrogation payment documentation is attached in the Origami claim files. In addition, a secondary review of incoming subrogation payments that do not align with the subrogation demand sent by the City will occur. Estimated completion - complete

B. ***Concur.*** Risk Management manages property, auto, liability and other coverage line claims in a collaborative manner, so the supervisor is familiar with claim details and claim status at all times.

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: August 12, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:

Discussion and action pertaining to the Bond Summary continuous review report.

Motion:

I move to approve and distribute the Bond Summary continuous review report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. Bond Summary Report - FINAL

SURPRISE
ARIZONA

Bond Summary
Traffic Congestion Mitigation
as of February 2020

March 23, 2020

Table of Contents and Scope

Traffic Mitigation Bond Summary

Purpose and Scope

As part of the approved FY2020 Annual Audit Plan, Internal Audit (IA) developed continuous review procedures around high-risk areas including the monitoring of 2017 General Obligation (GO) Bond projects. The review objective was to determine if bond funds were spent appropriately for the purposes voted on by residents. The audit did not cover a review of debt compliance and financial reporting procedures.

IA selected traffic mitigation bond project (2017 GO Bond Question #3) for review. IA performed procedures including the following:

- Inquiry with Public Works (PW) and Finance Department personnel
- 100% vendor verification of bond account expenditures
- Random sample-based comparison of invoices to contract rates and purchase orders (PO's)

Refer to the FY2019 Bond Summary – Pavement Preservation for details around project management procedures and project timelines. In addition to expenditure testing, IA verified all relevant procedures and controls outlined in the FY2019 Bond Summary are still in place.

DECIDE SURPRISE

GENERAL OBLIGATION BOND 2017

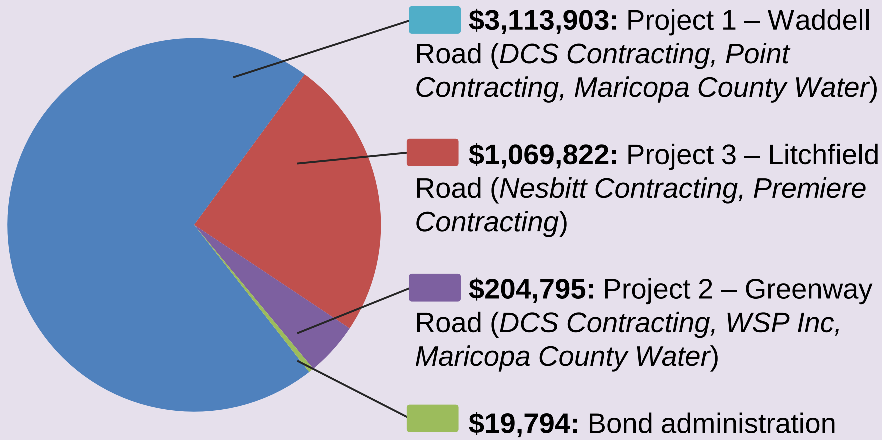
Executive Summary

How are voter-approved traffic mitigation bond funds being spent? (As of February 13, 2020)

Election Question:

Shall the City incur indebtedness in a total principal amount not to exceed $15,500,000 for **traffic congestion mitigation projects including the costs to design, improve, construct and reconstruct roadways**?*

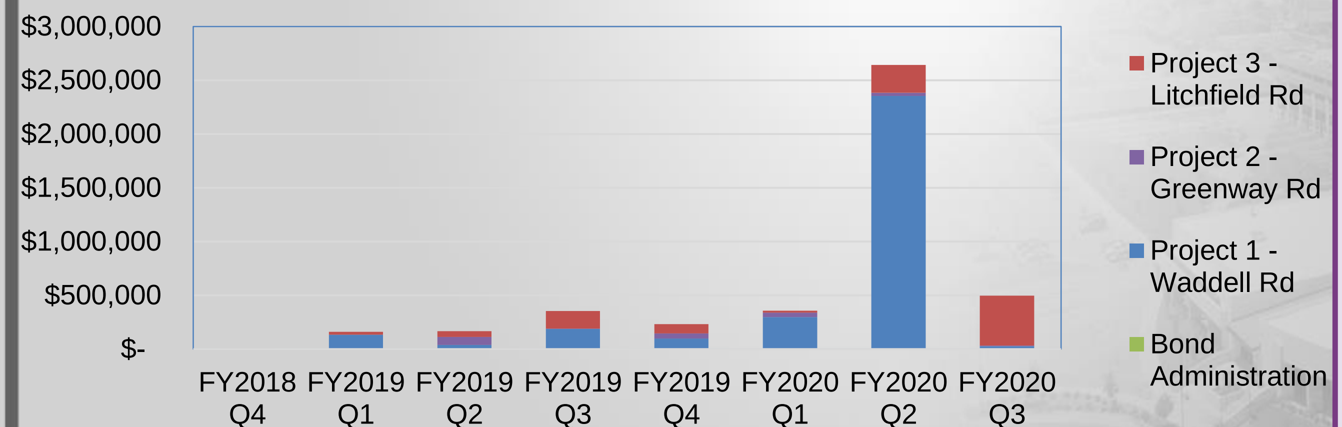
$4,408,315 spent as of 2/13/2020 ($15,500,000 Total Budget)



Conclusion

Based on inquiry and testing performed, IA determined bond funds for traffic mitigation were being spent in alignment with voter approved purposes. No material observations or recommendations for improvement were noted.

Quarterly Spending on Traffic Congestion Mitigation Bond Projects



Project / Spending Timeline

The Litchfield and Waddell Road projects are both currently under construction while Greenway Road is currently in the design phase with construction scheduled to start summer of 2020. These projects are not solely funded with bond proceeds and costs may be shared by other funds or external parties (e.g. developers, Highway user revenue fund).

* The bond question also includes: acquisition and installation of street lights, traffic signals, improvement, traffic safety devices, drainage improvements, retention basins, landscaping, relocation of existing infrastructure appurtenances, and to acquire land and interests in land for right-of-way therefor. In addition to each specific authorized purpose, bond proceeds may be used to pay for bond insurance or other credit support for the Bonds, all legal, accounting, financial, architectural, design, engineering, and construction management costs and all other costs incurred in connection with the issuance of the bonds and the purposes set forth in the question.

Appendix A – Standards and Acknowledgements

Non-Audit Services

The work detailed in this report is part of IA's continuous review program and does not constitute an audit as defined by and conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Performing this continuous review work, by itself or in aggregate with other non-audit services provided, does not create any threats to the independence of the IA function.

This project was not intended or designed to be a detailed study of every relevant procedure, system, or transaction. As such, the conclusion and recommendations contained in this report may not include all areas which may need improvement.

Data Reliability

The data utilized for the work performed was primarily obtained directly from Munis, the City of Surprise's financial system of record. Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Comprehensive Annual Financial Report (CAFR) performed by the City's external auditor.

Additionally, as part of testing procedures for this bond summary project, IA performed testing on samples of invoices, contracts, and PO's including agreement to data in Munis and identified no errors or limitations material in context of the work performed.

IA determined the data utilized is sufficiently reliable given its intended use.

Acknowledgements

IA appreciates the time City staff contributed to this review. IA would like to take this opportunity to thank all of the departments and individuals involved in the Bond Summary project for their considerable cooperation.

We received input and assistance from the following departments / divisions:

- Public Works (Engineering)
- Finance

Auditor: Alison Matthees, MPA, CIA

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CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: August 12, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:
Discussion and action pertaining to the Fleet Management audit report.

Motion:
I move to approve and distribute the Fleet Management audit report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:
The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:
Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:
This item relates to work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:
There is no budget impact associated with this item.
FTE Impact:
There is no FTE impact associated with this item.

ATTACHMENTS:

1. Audit Report - Fleet Management FINAL

SURPRISE

ARIZONA

Fleet Management Internal Audit Report

April 30, 2020

Table of Contents

Image Source: City of Surprise Fleet Services Guide

Executive Summary and Observations

Executive Summary

The City of Surprise's (City's) Fleet Management Division (Fleet Management or the division) of the Public Works Department is responsible for managing the acquisition, maintenance, and disposition of the City's fleet with a 14 person staff. Fleet Management maintains a 672 piece fleet inventory consisting of emergency SUV's and Sedans (21% of fleet), light, medium, and heavy duty trucks (23% of fleet), and trailers and utility carts (21% of fleet), along with refuse trucks, motorcycles, vans / busses, and other equipment.

In Fiscal Year 2020 (FY20), Internal Audit (IA) assessed the design and operating effectiveness of Fleet Management's internal controls and procedures. Procedures performed indicate that defined controls exist around asset acquisition and disposal, inventory receipt, and work order management. No material deficiencies in the division's internal control structure were noted. There were some areas for improvement discussed with Fleet Management which are not included as audit observations as the division is aware of and / or working on plans for improvement. These include: 1) due to current space limitations, inventory was not stored in a secured area and had not been reconciled since the prior year; 2) due to Fleet Technician (Tech) workload, Fleet Management is behind on performing preventative maintenance and repair work orders by a monthly average of 350 preventative maintenance appointments and 120 work orders; and 3) due to a recent update in asset disposal process, the Procurement Division is updating policies accordingly. Observations were noted around inventory management on an ongoing basis and during the division relocation and around securing assets through user access restrictions.

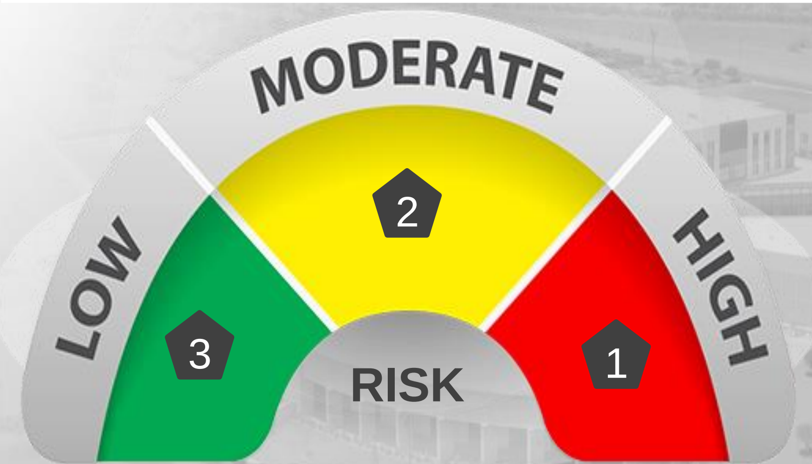
Observations

1. Fleet Management should develop and document asset management procedures to ensure security of parts and tools during the departmental move to the new fleet facility in April 2020. *(Page 5)*

2. Fleet Management should establish formal inventory records and procedures around parts on hand pending return to suppliers for credit or sale as surplus goods. *(Page 6)*

3. Fleet Management should ensure sufficient systematic user access restriction and segregation of duties exist to safeguard City fleet assets. *(Page 7)*

Observation Risk Rating



Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions in Appendix B.

Background, Objectives, and Scope

Background

Fleet Management has grown with the City as fleet size and complexity of needs has increased. The division implemented new AssetWorks software for managing the motor pool, maintenance and work orders, and inventory in 2017. The most recent significant change for Fleet Management was moving into the new Public Works Operations facility in the spring of 2020 which allows for enhanced employee safety, security of parts and tools and room for growth (See comparison photos below).

Each City department pays for its own vehicles, fuel, and the parts necessary for vehicle repairs out of their individual budgets with Fleet Management coordination. Fleet Management works with departments to prepare and approve new vehicle checklists, orders and bills departments for parts required for repairs, and purchases specialty tools for general use by Fleet Techs. Fleet Management employs a number of Fleet Techs whose work is overseen and reviewed for quality by the Fleet Leads. One Fleet Tech serves in the role of dedicated storekeeper for the parts and tools inventory and the Administrative Specialist serves as a contracts and invoice manager.

Old Fleet Facility

New Fleet Facility – Public Works Operations Center

Image Source: IA (Alison Matthees)

Audit Objectives

The objective of the Fleet Management audit was to:

1. Determine if controls are in place to protect and safeguard City assets.

This audit did not comprehensively review regulatory requirements and is not intended to conclude the City is in compliance with all applicable regulations.

Scope / Methodology

The scope of the audit was for the period of January 1, 2019 to March 31, 2020. Procedures included:

- Interviews and discussions with Fleet Management, Information Technology (IT), and Finance (Procurement) personnel
- Review of fleet-related policies and procedures
- Analysis and sample-based testing of AssetWorks data and supporting documentation around fleet assets and inventory
- Testing of the design, implementation, and operating effectiveness of key internal controls relevant to the objectives

Detailed Observation – High Risk

<table>
<tr><th>Observation</th><th>Recommendation</th><th>Management Response</th></tr>
<tr><td>1 – Fleet Management should develop and document asset management procedures to ensure security of parts and tools during the departmental move to the new fleet facility in April 2020.

Fleet Management is moving its operations from the overcrowded and over-programmed Vehicle Maintenance Facility, near Grand Avenue and Dysart Road, into the bond-funded Public Works Operations Facility, next to the water plant at Cactus and Litchfield roads, scheduled to open at the end of March. Fleet Management staff and management are moving new equipment (e.g. parts washer), tools, shop stock, and all parts inventory and spare parts (with the exception of tires), independently with rented trucks.

Fleet Management’s operational and budgetary decision to manage the move internally eliminates the formal inventorying that would be done with third-party moving services. The City’s Finance Department Standard Operating Procedure for inventory of equipment and supplies states: “Each City department is responsible for exercising general supervision and control over inventories of equipment and supplies.”

Based on inquiry performed, Fleet Management has outlined general plans for the move and received input from the City Attorney’s Office but, at the time of the audit, does not have detailed procedures outlined to ensure that all parts and tools are moved securely to the new location.

Risk:
• Accidental loss or theft of assets</td><td>Fleet Management should:

A. Develop procedures to be utilized while moving tools and parts between locations to ensure all parts and tools are moved and reduce the risk of loss or theft. Options to be considered may include, but are not limited to:
- Counting and recording items by description or location when being loaded and unloaded.
- Locking trucks with key’s restricted to assigned individuals at start and end point and not provided to vehicle drivers.
- Inventory any capital assets and any other high dollar value assets (parts, tools, and equipment) before and after the move.</td><td>A. Partially Concur. Fleet Maintenance will follow certain inventory controls during the move to the new Maintenance Facility to mitigate the risk of loss or theft of City assets without performing a full 100% inventory count.

Details of procedures to be performed continue in Appendix A – Management Response Detail

Internal Audit Note: As the fleet operations move occurred before this report was issued, this recommendation was communicated with the department in advance of report issuance.</td></tr>
</table>

Observation	Recommendation	Management Response
2 – Fleet Management should establish formal inventory records and procedures around parts on hand pending return to suppliers for credit or sale as surplus goods. Fleet Management has implemented formal policies around inventory management for parts and tools including periodic inventory counts. The division plans to further secure and formalize inventory management upon moving to the new Public Works facility which was designed with secure parts, tire, and tool storage. Fleet Management does not have procedures around: 1) core management for parts to be returned to suppliers for a credit; 2) unused but incomplete parts / kits; or 3) parts waiting to be sold as surplus. The City's inventory policy states, "Each City department is responsible for exercising control over inventories of equipment and supplies. City policy is that all City assets are tracked including surplus, obsolete items, and items waiting to be sold." Based on testing performed, three of 20 parts inventoried were not recorded as inventory in AssetWorks. Two were removed as a component from a large kit and not utilized, but saved in case of future need and the third hadn't been used in a number of years and is stored with other parts that will eventually be sold as surplus parts. Additionally, the City retains cores but does not have a formal core management, tracking, or inventory process. ***Risk:*** • Inaccurate records and potential for loss or fraud	Fleet Management should: A. Work with Procurement to continue development of a core tracking system to include, but not limited to: - Record of value of pending core credits for each supplier - Any applicable deadlines or due dates for core returns for credit - Quantity and condition of cores on hand recorded in AssetWorks and included in inventory procedures B. Develop independent tracking mechanism for, or include in inventory counts and AssetWorks, parts that are unused pending sale as surplus goods or that were removed and unused as part of a larger parts kit.	***A. Concur.*** Fleet Maintenance will follow certain procedures around parts on hand pending return to suppliers for credit or sale as surplus goods. Fleet Maintenance will work with Procurement to develop a Core Return policy. This will include the process, due dates and condition. This will be completed by December 31st, 2020 ***B. Concur.*** Fleet Maintenance will follow certain procedures around parts on hand pending return to suppliers for credit or sale as surplus goods. Fleet Maintenance will develop an area for all return, repair, core and incomplete kits. The shelves will be labeled and each item will have a colored sticker identifying the issue. This has been completed.

Detailed Observation – Low Risk

Observation	Recommendation	Management Response
3 – Fleet Management should ensure sufficient systematic user access restriction and segregation of duties exist to safeguard City fleet assets. Fleet Management has used AssetWorks for fleet, maintenance and repair, work order management, parts receiving, and inventory management since its implementation in 2017. The Human Resources Department uses AssetWorks to manage the City's motor vehicle pool. All City employees have limited access to Asset Works to reserve a motor pool vehicle and submit a work order for fleet repair work. The City's IT policy states, "Each user's access privileges must be: authorized according to business needs, restricted to least privileges necessary to perform job responsibilities, and assigned based on job classification and function." Access to AssetWorks was set-up with the software vendor in 2017, prior to IT access management for the system. Based on inquiry and testing performed, for two employees in AssetWorks, the users have access to make changes when inquiry only access would be sufficient for the review and monitoring procedures their roles require. For two other employees with elevated access to add / modify in AssetWorks, the employees are not members of Fleet Management and do not require elevated access. Additionally, for one of the 15 user groups tested (Storekeeper), access does not align with segregation of duties best practices. ***Risk:*** • Unauthorized changes to fleet or inventory records	Fleet Management should: A. Work with IT to remove elevated access levels for any inappropriate users and reduce access levels for members of the department who perform review and monitoring procedures who need inquiry access only. B. Align the Storekeeper user group with inventory and receiving segregation of duties best practices or, where the division's small size does not allow for sufficient segregation of duties, implement mitigating review controls (e.g. monthly review of any inventory adjustments made) completed by an employee without access to update selected area.	***A. Concur.*** Fleet Maintenance will work with our Business Management Analyst to ensure sufficient systematic user access restriction and segregation of duties exist to safeguard City fleet assets. The fleet manager will work with our Business Management Analyst to ensure the proper users are assigned the accurate access levels. This will be complete by December 31st, 2020. ***B. Concur.*** Fleet Maintenance will work with our Business Management Analyst to ensure sufficient systematic user access restriction and segregation of duties exist to safeguard City fleet assets. The fleet manager will work with our Business Management Analyst to ensure the proper access levels are identified for the storekeeper position. This will be complete by December 31st, 2020

Observation 1 Management Response (Continued from Page 5)

Observation 1: Fleet Management should develop and document asset management procedures to ensure security of parts and tools during the departmental move to the new fleet facility in April 2020.

Management Response

A. ***Partially Concur.*** Fleet Maintenance will follow certain inventory controls during the move to the new Maintenance Facility to mitigate the risk of loss or theft of City assets without performing a full 100% inventory count as follows:

- Individual parts are currently on shelves and labeled. These shelves will be shrink wrapped and numbered accordingly. To ensure delivery the shelves will be counted on an inventory transfer sheet by the Fleet Manager or Fleet Supervisor while loading. When delivered to the new maintenance facility they will be checked off as delivered by the Fleet Manager or Supervisor.

- All capital assets have designated location on the construction plans and are numbered accordingly. All capital assets will be labeled with the corresponding number from the construction plan before the move. They will be documented on the inventory transfer sheet by the Fleet Manager or Fleet Supervisor while loading. When delivered to the new maintenance facility they will be checked off as delivered by the Fleet Manager or Supervisor when unloaded to their designated location.

- All loose items around the shop and office will be placed in totes. These totes will be numbered accordingly. To ensure delivery the totes they will be counted on an inventory transfer sheet by the Fleet Manager or Fleet Supervisor while loading. When delivered to the new maintenance facility they will be checked off as delivered by the Fleet Manager or Supervisor.

- The moving trucks carrying the inventory and capital assets will be secured by a lock by the Fleet Manager or Fleet Supervisor only. The Fleet Manager or Fleet Supervisor will be the only ones to maintain the key or combination until delivered. The Fleet Manager or Fleet Supervisor will open the moving trucks when they arrive at the new maintenance facility.

- After all inventory items and capital assets are delivered to the new maintenance facility and checked off the inventory transfer sheet as being delivered, the Fleet Manager or Fleet Supervisor will sign off on the inventory transfer sheet as being completed and accounted for.

Appendix B – Data Reliability and Risk Rating

Data Reliability

The data utilized for the work performed was either obtained from Munis, the City's financial system of record, or from Fleet Management's asset management software, AssetWorks.

Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Comprehensive Annual Financial Report (CAFR) performed by the City's external auditor. Additionally, as part of testing procedures for this fleet management audit, IA performed testing on samples of assets and identified no errors or limitations in the data material in context of the work performed. Though there were some inventory variances noted in testing, they are addressed in recommendations included and Fleet Management plans for inventory management at the new facility. They were not material in context of the work performed.

Internal Audit determined the data utilized is sufficiently reliable given its intended use.

Audit Observation Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:

- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.
- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.
- Low – Represents an observation for consideration by management for correction or implementation associated the process being audited. Low-risk observations should be implemented to improve efficiency and effectiveness of operations.

Appendix C – Standards and Acknowledgements

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this audit included review and testing of the design, implementation, and operating effectiveness of key internal controls relevant to the audit's objectives. In accordance with GAGAS, IA verified the audit objectives and related controls identified address all 17 principles of the COSO framework. Though some control weaknesses were identified and are included in the Detailed Observations section of this report, none rose individually or cumulatively to the level of a Fleet Management Division or City-wide internal control deficiency.

This project was not intended or designed to be a detailed study of every relevant procedure, regulation, system, or transaction. As such, the conclusion and recommendations contained in this report may not include all areas which may need improvement.

Acknowledgements

IA appreciates the time City staff contributed to this review. IA would like to take this opportunity to thank all of the departments and individuals involved in the Workers' Compensation Audit for their considerable cooperation.

We received input and assistance from the following:

- Fleet Management Division (Public Works Department)
- Procurement Division (Finance Department)
- Information Technology Department

Auditor: Alison Matthees, MPA, CIA

Surprise Internal Audit

<u>Vision</u>

The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.

<u>Mission</u>

To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

For more information or to contact Internal Audit:
https://www.surpriseaz.gov/2561/Internal-Auditor

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: August 12, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:
Discussion and action pertaining to the Cash Handling - Surprise Stadium Box Office audit report.

Motion:
I move to approve and distribute the Cash Handling - Surprise Stadium Box Office audit report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:
The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:
Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:
This item relates to work performed as part of the FY2020 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:
There is no budget impact associated with this item.
FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. Surprise Stadium Box Office Report - FINAL

SURPRISE
ARIZONA

Surprise Stadium Box Office Cash Handling

March 3, 2020

Surprise Stadium Box Office Citywide Cash Handling Report	

Purpose, Scope, and Objectives

As part of the approved FY2020 Annual Audit Plan, Internal Audit (IA) reviewed compliance with cash handling procedures. The review objectives were to:

1. Determine if controls are in place to safeguard and protect City of Surprise (City) cash.
2. Determine if the staff complies with citywide cash handling policies and procedures.

IA performed procedures including the following:

- Inquiry with Finance, Information Technology (IT), and cash-handling line staff and supervisors throughout various City departments.
- Surprise cash counts and observations at sites and events that handle cash
- Review and analysis of various Munis Cashiering Module reports, user access lists, and recorded video monitoring.

The Surprise Stadium Box Office (Box Office) is one of the surprise observation locations. Not all audit procedures performed are applicable to all locations.

Photo Source: Surprise Stadium Ticket Website (https://www.surprisestadium.com/tickets)

Executive Summary

Cactus League Spring Training Major League Baseball generates over $6 million in gross revenue and attendance numbers of over 180,000 people annually. A majority of these ticket sales are processed through the Box Office electronically or in person, located at the entrance to the stadium. Revenue from ticket sales can be collected via cash, check, or credit card at the Box Office, over the phone, or through an order form available online. The Box Office is staffed with part-time seasonal City employees and overseen by Sports and Tourism full-time staff.

In Fiscal Year (FY) 2020, IA assessed the design and operating effectiveness of internal controls around cash handling at multiple City locations, including the Box Office, focusing on safeguarding of financial assets and compliance with citywide cash handling policies. The audit procedures performed at the Box Office indicate that defined controls exist around recurring training of employees, dual custody of cash, recurring cash counts, physical security of the controlled area, and safe deposit and change management procedures to materially ensure the accuracy and completeness of the Box Office's cash. No material deficiencies nor high risk observations in the Box Office's internal control structure were noted. Observations were identified related to securing hard copy credit cardholder data and documenting change bank overage policies.

The Box Office review was a surprise site audit as part of the Citywide Cash Handling Audit. Refer to the Central Cashiering Audit Report for additional details.

Observations

1. Management should secure credit cardholder data obtained for refund transactions at the Box Office in compliance with City policy. *(Page 4)*

2. Management should develop and document procedures for change bank overages / shortages in alignment with best practices. *(Page 5)*

Observation Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions on page 5.

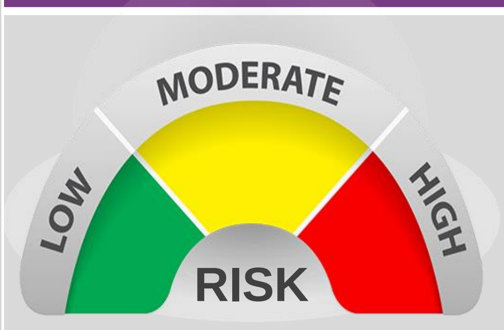
Detailed Observation: Moderate Risk

Observation	Recommendation	Management Response
1 – Management should secure credit cardholder data obtained for refund transactions at the Box Office in compliance with City policy. Most ticket transactions are processed through the ProVenue system but some hard copy ticket order forms and refund forms (used for game cancellations) containing customer credit card information are utilized. These forms are collected by Box Office staff and processed by a supervisor; once the transaction is complete, the forms are retained until all are shredded at fiscal year end. The City's Finance Department Cash Handling Policies and Procedures states: "Written or computer-stored customer debit/credit card data may not be retained after the transaction is complete unless for an official business purpose approved by the Revenue Manager. Data must be secured at all times in a locked drawer or safe within a controlled access area, or if stored on a computer, file must be secured." Infrequency of refund requests and lack of procedure to secure payment card information like cash may lead to non-secure storage of credit card information. Through observation in the Box Office, IA noted that multiple refund forms containing customer's full name, credit card number, and expiration date were stored in a high-traffic area (next to staff sign-in sheet) of the secured Box Office for at least four hours before being processed by a manager. ***Risk:*** Accidental release or misuse of payment information	Management should: A. Establish and communicate procedures to staff and supervisors for securing any handwritten or physical copies of credit card information, either in the Box Office staff's individual cash drawers until ready for processing or in the supervisor's office safe. B. Obtain Revenue Manager approval for retention procedures for credit card information or destroy all copies of credit card information as soon as the transaction has been completed.	A. ***Concur***. In the event of a cancellation, refund forms will be revised to reflect the necessary information needed to process the refund request and protect customer data. Revisions to Form: - Removal of Credit Card Information - Add Patron Account Number and or Transaction Number for Anonymous Transactions to accompany tickets. The Surprise Stadium Box Office ticket sellers will be directed to collect completed forms and submit directly to Box Office Manager On Duty for refund processing and secure storage. Forms and policy updates will be completed by the Box Office Supervisor by June 30, 2020. B. ***Concur.*** Box Office Refund Policy and Procedures and revised refund form will be submitted to Revenue Manager annually for review and approval. The Sports & Tourism Business Administration Manager will submit the policies and procedures to the Revenue Manager each year by June 30, 2020.

Detailed Observation: Low Risk

Observation	Recommendation	Management Response
2 – Management should develop and document procedures for change bank overages / shortages in alignment with best practices. A master change bank is maintained to make change for seller cash drawers when needed. The *Box Office Reconciliation End of Day Close-Out* Procedures include a Change Bank Verification Form to be used for the twice daily change bank count. The Box Office utilizes an Over/Short Form for seller drawers but not the change bank. There is no documented procedure for researching and resolving change bank variances. Per observation of Box Office closing procedures, it was noted there was a $20 overage in the Box Office change bank. The overage was retained in the change bag and will be deposited at the end of the season. ***Risk:*** Root cause of overages / shortages may not be identified or corrected.	Management should: A. Document procedures for change bank variances including, but not limited to: - Outlining overage retention policies - Describing documentation and recordkeeping standards for change bank overages / shortages - Performing and documenting results of a root cause analysis for overage / shortages	***Concur.*** Box Office Change Bank Policy and Procedure shall include an overage/shortage line item on daily log sheet and reflected on close out documentation log for end of season reconciliation. Box Office and Change Bank Policy and Procedure will also reflect process for end of the season deposit and notate overage as a separate line item labeled "cash bank overage". Operational cash overages and shortages should be recorded to provide an audit trail of these occurrences. The reconciliation process will identify the amounts of cash overages/shortages and box office management should investigate to determine the underlying cause (change banks, seller overages,etc). The policies and procedures will be updated by the Box Office Supervisor by June 30, 2020.

Audit Observation Risk Rating



Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:

- *High* – Represents an observation requiring immediate action to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.
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Appendix A – Standards and Acknowledgements

Audit Standards

The audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this audit included review and testing of the design, implementation, and operating effectiveness of key internal controls relevant to the audit's objectives. In accordance with GAGAS, IA verified the audit objectives and related controls identified address all 17 principles of the COSO framework. Though some control weaknesses were identified and are included in the Detailed Observations section of this report, none rose individually or cumulatively to the level of a Box Office division or city-wide internal control deficiency.

This project was not intended or designed to be a detailed study of every relevant procedure, regulation, system, or transaction. As such, the conclusion and recommendations contained in this report may not include all areas which may need improvement.

Data Reliability

The data utilized for the work performed was primarily obtained from Munis Cashiering Module, the City of Surprise's financial systems of record. Other departments (e.g. Sports and Tourism Box Office may use other ticketing systems which were not reviewed in detail). Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Comprehensive Annual Financial Report (CAFR) performed by the City's external auditor. IA identified no errors or limitations in the data material in context of the work performed and determined the data utilized is sufficiently reliable given its intended use.

Acknowledgements

IA appreciates the time City staff contributed to this review. IA would like to thank all of the departments and individuals involved in the project for their considerable cooperation.

We received input and assistance from the following departments / divisions:

- Finance (Revenue Management / Cashiering)
- Sports and Tourism (Surprise Stadium Box Office)
- IT (Security)

Auditors: Carol Holley and Alison Matthees

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CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: August 12, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:

Consideration and action to recess into executive session pursuant to A.R.S. 38-431.03(A)(2) for presentation and discussion of Central Cashier cash handling material and documents deemed confidential by law.

Motion:

I move to recess into executive session for the purpose noticed.

Background:

Objective Analysis:

Policy Compliant:

Financial Impact:

Budget Impact:

FTE Impact:

ATTACHMENTS: