CITY OF SURPRISE
Audit Committee Meeting
16000 N. Civic Center Plaza
Surprise, AZ 85374
Monday, August 16, 2021 @ 3:30 PM
COUNCIL CHAMBERS OVERFLOW ROOM

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:

INSTRUCTIONS: In order to address the Board\Commission, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the Secretary before the meeting begins.

Note: A.R.S. 38-431.01(H) - During this time members of the public may address the Board\Commission only on issues within the jurisdiction of the Board\Commission which are not an item on the agenda. At the conclusion of the open call, the Board\Commission may respond to criticism, may ask staff to review the matter or may ask that the matter be put on a future agenda. No discussion or action shall take place on any item raised.

CONSENT AGENDA:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

1.	Citywide	Consideration and action pertaining to the March 31, 2021 meeting minutes.	City Manager Office
2.	Citywide	Discussion and possible action pertaining to Fire-Medical Pharmaceutical Safeguards and Contracts Audit.	City Manager Office
3.	Citywide	Discussion and possible action pertaining to the City-Wide Exit Process Audit.	City Manager Office
4.	Citywide	Discussion and possible action pertaining to Form I-9 and E-Verify Compliance Audit.	City Manager Office
5.	Citywide	Discussion and action pertaining to the FY2019-2020 and FY2020-2021 Summary of Audit Recommendations.	City Manager Office
6.	Citywide	Consideration and action pertaining to FY2021-2022 Annual Audit Plan.	None City Manager Office

G. Other Business and Future Agenda Items

H. Executive Session

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 12, 2021 at 11:10 AM

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
Audit Committee Meeting

Council Meeting Date: August 16, 2021
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 pertaining to the March 31, 2021 meeting minutes.

Motion:
I move to approve the minutes of the March 31, 2021 City Audit Committee meeting.

Background:
N/A

Objective Analysis:
N/A

Policy Compliant:
N/A

Financial Impact:
N/A

Budget Impact:
N/A

FTE Impact:
N/A

ATTACHMENTS:
1. 20210331 Audit Committee meeting minutes- draft

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

Wednesday, March 31, 2021 – 3:30 p.m.

CALL TO ORDER

Chair Connie Bowers called the **Audit Committee Meeting** to order at 3:30 p.m. at Surprise City Hall, Council Chambers, 16000 North Civic Center Plaza Surprise, Arizona 85374, on Wednesday, March 31, 2021.

ROLL CALL

Connie Bowers, Chair, Aaron Bacon, Vice Chair, Emmanuel Ogutu, Councilmember Chris Judd, Councilmember Ken Remley, Seth Dyson HSCV Director, Andrea Davis, Finance Director

PLEDGE OF ALLEGIANCE

CURRENT EVENTS AND REPORTS

None.

STAFF REPORTS

None.

STAFF PRESENT

Carol Holley, Internal Auditor-Sr., Michael Frazier, City Manager, Terry Young, Assistant City Manager, Jon Gake, Accounting Manager, Teresa Butterbredt, Assistant Director of Finance, Kerel Moore, IT Technician, Breanne Lorefice, Staff Liaison, Jackie Moucheron, Staff Liaison.

CALL TO THE PUBLIC

None.

REGULAR AGENDA ITEM

1. **Action item: Consideration and action pertaining to approval of November 11, 2020, Audit Committee meeting minutes:**
   Councilmember Ken Remley moved to approve the November 11, 2020, Audit Committee Meeting minutes, Councilmember Judd seconded the motion. Motion carried 5-0.

2. **Presentation and Discussion: Pertaining to the fiscal year 2020 annual audit and Comprehensive Annual Financial Report and associated reports.**

   Chris Goeman, from HeinfeldMeech presented on the annual audit and Comprehensive Annual Financial Report and associated reports.

   Councilmember Remley asked how the City might improve its bond rating, and a discussion was had regarding the City's bond rating and what factors affect the rating.

   Councilmember Remley also asked about vacant positions in the Finance Department, and discussion took place regarding the vacancies.

   Committee Member Ogutu asked how much the questioned costs were for the single audit and Chris Goeman answered that for the external audit there were no questioned costs for fiscal year 2020.

OTHER BUSINESS AND FUTURE AGENDA ITEMS

The next Audit Committee Meeting will be held on June 14, 2021 at 3:30 p.m.

EXECUTIVE SESSION

None.

ADJOURNMENT

Councilmember Ken Remley moved to adjourn. Committee Member Bacon seconded the motion. Motion carried 5-0. The meeting was adjourned at 4:06 p.m.

ATTEST:

_____
Connie Bowers, Chair

_____
Breanne Lorefice, 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
Audit Committee Meeting

Council Meeting Date: August 16, 2021
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 possible action pertaining to Fire-Medical Pharmaceutical Safeguards and Contracts Audit.

Motion:
I move to approve and distribute the Fire-Medical Pharmaceutical Safeguards and Contracts Audit report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2020-2021 Annual Audit Plan approved by the Audit Committee at the November 19, 2020, Audit Committee meeting.

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 FY2020-2021 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 - SFMD Safeguards & Contracts

SURPRISE
ARIZONA

Fire-Medical Pharmaceutical Safeguards and Contracts Audit

December 30, 2020

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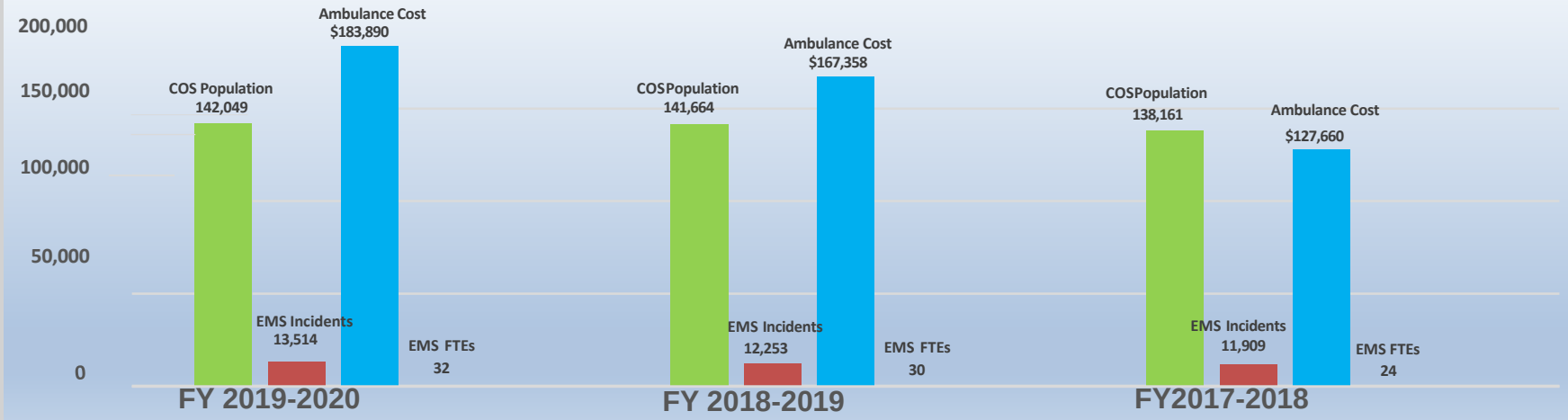
Banner & Bound Tree Contract Cost



The continued population growth led to a ripple effect of increased ambulance costs, EMS incidents, and FTEs to provide emergency transport services to the Surprise community.

Executive Summary, Technology, and Observations

Executive Summary

In October 2020, Internal Audit (IA) conducted the Surprise Fire-Medical Department (SFMD) Ambulance Contracts audit as part of the FY2020-2021 Annual Audit Plan. The audit assessed the operating effectiveness of internal controls over accessibility and safeguards of assets, contract terms and conditions, policies and procedures, and purchase order limits.

Based on testing performed by IA, SFMD is in compliance with contract terms and conditions over the safeguards such as: ambulances and fire trucks drug boxes, the electronic patient care record (EPCR), and the reviewed purchase order limits were not exceeded. The audit report provides recommendations to improve the internal controls over safeguarding pharmaceuticals, medical supplies, assets, streamlining training and certification systems, policies and procedures, and compliance with laws and regulations.

Technology Innovation

SFMD has obtained innovative technology from Bound Tree called UCapIt (system), a refrigerated Emergency Medical Services (EMS) automated vending machine for dispensing pharmaceuticals and medical supplies. UCapIt is projected to reduce SFMD inventory carrying cost and increase EMS availability for emergency calls. The system is estimated to go live in FY2020-2021.

Observations

1.SFMD should ensure adequate security protocols are in place and complied with at all times to protect and limit access to controlled substances, pharmaceuticals, medical supplies, and the City of Surprise (City) assets. (Page 5)

2.SFMD should streamline training and certification monitoring systems. (Page 6)

3.Policies and procedures should be reviewed and updated as necessary. (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 A.

Source of Photo: Fire-Medical Intranet Page http://insidesurprise/city-departments/fire-medical

Background, Objectives, and Scope

Background

The mission of the SFMD is to protect and preserve life and property for the City. In November 2014, SFMD applied with the Arizona Department of Health Services (AZDHS) for a Certificate of Necessity, an application to demonstrate a financial need to provide emergency transport services approved in June 2015. In the past five years, the City has seen continued growth in population and services, requiring an increase in the City's SFMD assets and resources. As of June 30, 2020, SFMD has financial obligations with approximately 13 vendors that provide pharmaceuticals, controlled substances, and medical supplies.

In FY2019-2020, over $183,000 was expended on SFMD pharmaceuticals, controlled substances, and medical supply purchases. The two primary vendors for FY2019-2020 were Banner Del E. Webb (Medical Center) and Bound Tree Medical LLC (Bound Tree). The Medical Center contract with SFMD stipulates that the Medical Center is to service the SFMD with an advanced life support base medical facility, provide a physically present emergency medical physician 24 hours a day in the Medical Center, and shall establish a procedure for replenishing pharmaceutical supplies used during the treatment of any patients transported to the Medical Center. During patient transport, if emergency medical supplies are used on a patient, the paramedic replenishes stock at the Medical Center. The Medical Center contract was established without a "not to exceed" limit and expires on December 31, 2021.

The Bound Tree contract with SFMD is for EMS devices, pharmaceuticals, and medical supplies. SFMD purchases bulk pharmaceuticals and medical supplies to restock the SFMD warehouse. The contract is not to exceed $500,000 annually and expires on August 7, 2024.

Objectives

The objectives of the audit were to determine whether SFMD has:

- Identified controls in place to safeguard pharmaceuticals, medical supplies, and assets
- Complied with ambulance contract terms and conditions
- Established and is in compliance with policies and procedures per applicable laws, regulations and statutes
- Exceeded purchase order limits

This audit did not comprehensively review regulatory requirements and is not intended to conclude SFMD complies with all applicable regulations.

Scope / Methodology

The audit scope was from July 1, 2019 to November 30, 2020. Procedures included:

- Interviews and discussions with SFMD staff, Information Technology (IT), and Procurement personnel
- Review and analyze the SFMD ambulance contracts and related procurement documentation
- Test SFMD compliance with contract terms and conditions
- Review of SFMD policies, procedures, laws, and regulations relevant to the audit objective
- Participation in four SFMD facility tours and three ride-a-longs
- Test of operating effectiveness of key internal controls over safeguarding controlled substances, pharmaceuticals, drug boxes, and SFMD's facilities

Detailed Observations – High Risk

Observations	Recommendations	Management Responses
1. SFMD should ensure adequate security protocols are in place and complied with at all times to protect and limit access to controlled substances, pharmaceuticals, medical supplies and City assets. In November 2020, IA participated in four SFMD facility tours, two ambulances and one fire truck ride-a-longs to observe daily operations and safety protocols. Based on observations, testing, and inquires performed, IA noted the following: • Medical supplies located in SFMD Station #305 was observed in unlocked cabinets or open bins located in storage areas. • Through discussion with staff at SFMD Station #307, it was determined that custodial transfer of the drug box during shift changes is not documented in compliance with the Arizona Department of Health Services. In March 2021, SFMD updated policies and procedures to require compliance with the Arizona Department of Health Services. • The pharmaceutical refrigerator for Special Events weighs less than 750 pounds and is not bolted or cemented to the floor as required by the Drug Enforcement Administration (DEA). • The minimum quantity of pharmaceuticals/controlled substances required for the two Special Events boxes was not identified. One drug box located in the Special Events refrigerator is not labeled. **Risk:** • Inconsistent application of policies and regulations may increase the opportunity for fraud, waste, and abuse of City resources.	The Surprise Fire-Medical Department should: A. Collaborate with the Surprise Police Department to conduct a security assessment of SFMD. Where feasible, implement assessment recommendations to ensure the safety of the City's first responders and City assets. B. Ensure staff's compliance with Arizona Department of Health Services regulation for documenting the custodial transfer of SFMD drug box at shift change. C. Ensure compliance with the DEA pharmaceutical refrigerator protocol.	A. SFMD Administration concurs and will conduct a security assessment in collaboration with Surprise Police Department (SPD) by December 31, 2021. Implementation of any recommendation will be based on the completed SPD report. B. SFMD concurs with this recommendation, as the department will review the current drug box inspection policy and custody log for any improvement on documentation workflow. The department will assign the task to the Administrative Assistant Fire Chief for completion and develop a tutorial for department members on how to complete a daily drug box inspection by December 31, 2021. C. SFMD Administration concurs and will revise policies to comply with items contained in this recommendation and has assigned this to the Administrative Assistant Fire Chief with completion anticipated when the new Readiness Center and Fire Station 308 opens.

Detailed Observations – Low Risk

Observations	Recommendations	Management Responses
2. SFMD should streamline training and certification monitoring systems. SFMD EMS staff are required to provide valid copies of all education and training certificates to the SFMD EMS Chief to place in the staff's personnel file. In December 2020, a judgmental sample of three out of 15 paramedics was selected to test their EMCT certification status. Based on observations and testing performed, including auditee discussions, IA noted the following: • One out of three paramedic certifications received was not a copy of the paramedic's currently active certificate; a copy of the current active certificate was provided at the close of the audit on January 7, 2021. SFMD certification training and associated expiration dates are tracked and managed in Target Solutions. All other SFMD training is tracked in a separate records management imaging system. **Risk:** • Multiple systems for tracking and monitoring staff training and certifications use limited staffing resources that could be allocated toward other SFMD tasks and responsibilities	The Surprise Fire-Medical Department should: A. Combine and streamline certification tracking into a single record management system.	A. SFMD concurs with this recommendation and is researching integration methods to combine all training and certification records into one records management system. This task is assigned to the Administrative Assistant Fire Chief and will be completed by December 31, 2021.

Detailed Observations – Low Risk

Observations	Recommendations	Management Responses
3. Policies and procedures should be reviewed and updated, as necessary. The Commission on Fire Accreditation International require: SFMD to review its administrative policies and standard operating procedures (SOP) every other fiscal year. Based on observations and testing performed, including auditee discussions, IA noted that seven SFMD policies and procedures related to ground ambulance are not reviewed and updated every other year: **Policy Name/ Number** – **Last Date Reviewed** Station Security – 110.05 – May 8, 2007 Paramedic/E.M.T. Re-Cert & C.E. Requirements –111.01 – March 1, 2012 Drug Box Accountability -113.01 – November 7, 2012 EPCR - 113.02 – October 3, 2013 Patient Transport – 113.03 – October 3, 2013 Treat and Refer Follow Up- 113.09 – December 1, 2018 Treat and Refer QA Process – 113.10 – December 1, 2018 SFMD stated a lack of adequate resources and time to create, review, and update policies and procedures. **Risk:** • Policies and procedures may not be current and comply with applicable laws, regulations, and statutes.	The Surprise Fire-Medical Department should: A. Review and update EMS written policies and procedures, as necessary.	A. SFMD concurs with this recommendation. SFMD reviewed and revised the policies for Station Security in December 2020, Drug Box Accountability in March 2021, Electronic Patient Care Records in March 2021, and will update existing policies as well as develop new policies as appropriate within the limitation of current staffing. The balance policies require review have been assigned to the Medial Services Battalion Chief for completion by December 31, 2021.

Appendix A – Data Reliability and Risk Rating

Data Reliability

The data utilized for the work performed was either obtained directly from Munis, the City financial system of record, or obtained directly from SFMD. 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 Fire-Medical Pharmaceutical Safeguards and Contracts Audit, IA performed testing on purchase orders, invoice payments, personnel files, and supporting documentation and identified no errors or limitations in the data material in the 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 with the process being audited. Low-risk observations should be implemented to improve the 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, identified related controls, and addressed 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 Fire-Medical 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 Fire-Medical Pharmaceutical Safeguards and Contracts Audit for their considerable cooperation.

We received input and assistance from the following:

- Surprise Fire-Medical Department
- Information Technology Department
- Finance (Procurement) Procurement

Auditor: Charis Newberry

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
Audit Committee Meeting

Council Meeting Date: August 16, 2021
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 possible action pertaining to the City-Wide Exit Process Audit.

Motion:
I move to approve and distribute the City-Wide Exit Process Audit report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2020-2021 Annual Audit Plan approved by the Audit Committee on November 19, 2021.

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 FY 2020-2021 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 - City-Wide Exit Process

SURPRISE
ARIZONA

City-Wide Exit Process Audit

February 26, 2021

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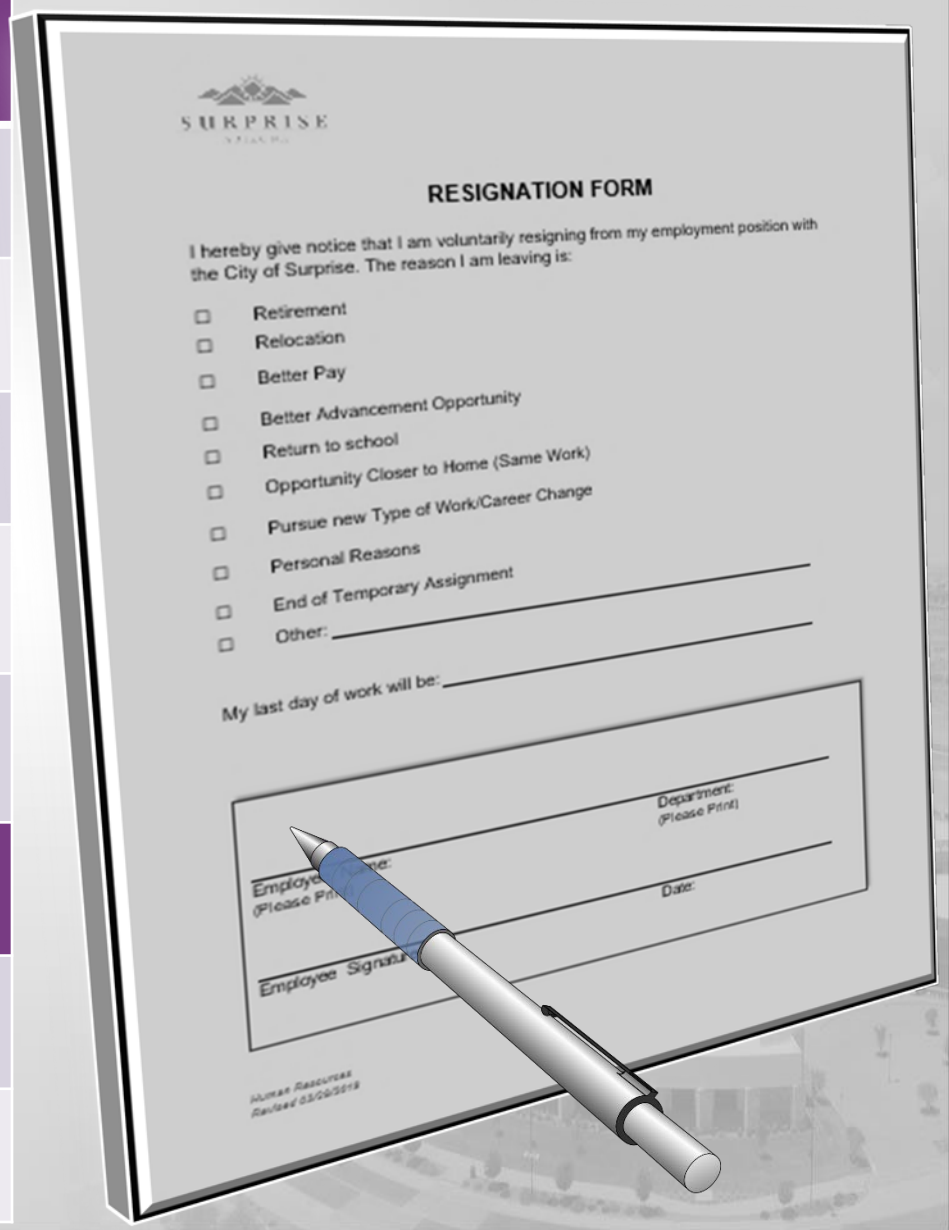

Executive Summary and Observations

Executive Summary

On 1/08/2021, Internal Audit (IA) initiated the City-Wide Exit Process audit as part of the FY2020-2021 Annual Audit Plan. The purpose of the audit was to evaluate city-wide compliance with the Employee Policy Manual (EPM), Section 3.11 Separating from Service (Section 3.11), and its related records retention policy.

Section 3.11 establishes policies and procedures for City of Surprise (City) departments to ensure separated individuals reimburse any debt owed to the City, return City issued assets, such as computers and cell phones, and access to all electronic accounts are deactivated.

The audit scope period was from FY2018-2019 through FY2019-2020. IA illustrates a trend from 1/01/2015 through 3/08/2021 of all full-time, part-time, seasonal, and temporary employees, elected and appointed officials who involuntarily or voluntarily separated from the City.

Based on IA testing, city-wide departments materially follow the EPM Section 3.11 policy and procedures related to deactivating electronic accounts and collecting City issued assets. The audit report provides recommendations to establish policies and procedures to streamline Section 3.11 workflow, collect any debt owed to the City, and improve the internal controls over Human Resources (HR) General Records Retention Schedules.

Individual Separation by Calendar Year

Source: Munis data prepared by IA from January 1, 2015, through March 8, 2021, including full-time, part-time, seasonal, temporary employees, elected and appointed officials.

Observations

1. HR should work together with Finance and IT to enhance policies and procedures to streamline Section 3.11 workflow. (Page 5)

2. HR should review retention schedules at least annually for potential updates. (Page 6)

Observations 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

HR's EPM Section 3.11 requires individuals who voluntarily resign from employment to notify their immediate supervisor in writing or use the Voluntary Resignation/Retirement form (VRRF). Supervisors receiving resignations shall immediately convey the information to the department head and HR. The written notification must include the individual's last physical day of work. The individual separating from the City is expected to give no less than 14 calendar days' notice unless previously approved by the affected Department Director. Without prior Director approval, the individual might not be eligible for re-hire. Section 3.11 also includes retirement, layoff, and job abandonment as voluntary resignations from the City.

HR established the Confidential Employee Exit Questionnaire (CEEQ) to conduct an exit interview for all resigning and retiring individuals. Upon receipt of individual resignation, HR is responsible for coordinating with the affected department, Finance and IT to ensure all electronic accounts are disabled, the return of City property, and any debt reimbursed on the individuals' last physical day of employment.
HR will also provide the individual with a notice of health care continuation rights (COBRA). This audit did not review compliance with COBRA.

Individuals who are involuntary terminated from employment with the City pursuant to EPM 10.1 Corrective Action Principles may be deemed as ineligible for re-hire with the City. Per Arizona Revised Statutes (A.R.S.) §23-353, involuntarily separation of individuals will receive final wages within seven business days or at the end of the next regular pay period, whichever is sooner. All other individuals separating will receive their final pay on the following regular payday.

Objectives

The objectives of the audit were to determine whether HR has:

- Followed the EPM, Section 3.11, and applicable law and statute related to individual separation
- Followed the HR General Records Retention Schedules

Scope / Methodology

The audit scope was from FY2018-2019 through FY2019-2020. Procedures included:

- Interviews and discussions with HR, Payroll Division, Finance, and IT personnel
- Conducting professional judgment and random samples of individuals' equipment status, possible debt owed, and LaserFiche retention
- Reviewing Munis data, hiring, the reason for separation, and dates
- Testing EPM policy and procedures and notification dates of related documents

Detailed Observations – Moderate Risk

Observations	Recommendations	Management Responses
1. HR should work together with Finance and IT to enhance policies and procedures to streamline Section 3.11 workflow. HR's responsibility for Section 3.11 policy and procedure of individual separation is to coordinate with IT and Finance to ensure: • The return of City property • Reimbursement of any debt owed to the City Based on IA's evaluation, observation, and discussions with HR, Finance, and IT, it was determined that: • Finance is not updating personnel changes to ensure the appropriate person(s) receive HR email notification of individual resignation. A previous audit report issued in 2016 identified the need for Finance to review HR individual separation reports and take action(s) as necessary. • HR separation workflow consists of manual documents and IT automated processes, which multiple departments manage. There is no policy and procedure: • For individuals and immediate supervisors to sign for City issued property at the hire and termination date • To collect a separated individual's debt owed the City before the last physical day of employment **Risk:** • Potential theft of City property	**HR Department should:** A. Work in partnership with IT to identify software platforms the City currently owns and utilize that can be a feasible way to automate Section 3.11. B. Collaborate with IT and Finance to create and implement city-wide policies and procedures for new hires to sign for City property on their first day of employment; immediate supervisors to sign for the return of City property on the separated individual's last physical day of employment, and collect any debt reimbursement by individuals' last physical employment day or deduct from the separated individual's final wages. **Finance Department should:** C. Work with HR to establish and implement best practices to ensure the appropriate Finance personnel receives notification timely. D. Ensure previous agreed-upon management response is followed. Changes to a management response should be submitted to IA in writing.	A. Concur. The email distribution process is efficient as it notifies the appropriate City personnel of the separation. By 6/14/2021, this document will be placed in the separated individuals' personnel file to show when and to whom the notification was sent. This documents a history of notification for departments to conduct their out-processing regarding individual separation. HR will meet with IT by 8/01/2021 to develop a plan to collaborate, research, and evaluate viable options for automation. B. Concur. HR Manager will review and update the City EPM as appropriate. HR will collaborate with Finance and IT to create a policy/process/form. Completed by 10/01/2021. C. Concur. The Assistant Finance Director of Accounting will ensure that this is implemented by 6/30/2021. D. Concur. The previous resolution to the matter discussed in item "D" ended up not being a viable resolution. A more robust solution will be implemented by 6/30/2021 and continuously followed from that point on.

Detailed Observations – Low Risk

Observations	Recommendations	Management Responses
2. HR should review retention schedules at least annually for potential updates. The Arizona State Library, Archives and Public Records General Records Retention Schedule approved 10/31/2016 and revised 2/09/2021 requires: • The personnel files retention period is five years after the individual separation, or the term of office ended. The City's Records Retention Policy Executive Order NO. 2005-03, Section 6 – Responsibilities of the Department Heads states: • Each department head shall be responsible for following the City's Records Retention Program. Based on IA's observation of documents maintained for individuals separation and discussion with HR, it was determined that: • HRs' Retention Schedule was last updated on 10/25/2018. • One out of three sampled separated individuals' personnel file data remains in LaserFiche after the five-year retention period. **Risk:** • Noncompliance with the Arizona State Library, Archives and Public Records General Records Retention Schedule and the Records Retention Policy Executive Order 2005-3 (City Clerk) • Possibly impose a legal or financial liability to the City when records are retained beyond the approved retention period	**HR Department should:** A. Review the Arizona State Library, Archives, and Public Records General Records Retention Schedule, at least annually, for updates to mitigate legal risks and liability to the City.	A. Concur. Due to operational demands, the departmental procedure has been to destroy personnel files annually. HR Manager will change the procedure to review and destroy personnel files on a monthly basis beginning 7/01/2021.

Appendix A – Data Reliability and Risk Rating

Data Reliability

The data utilized for the work performed was either obtained directly from Munis, the City of Surprise's financial system of record, or obtained directly from HR. IA evaluated LaserFiche separated individuals' personnel files, IT work orders, final wages, and supporting documentation to Munis data with a summary of exceptions. 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 HR, IA performed testing on policy and procedures, payment timeliness, personnel files 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, identified related controls, and addressed 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 Human Resources 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. The conclusion and recommendations contained in this report might not include all areas that could 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 City-Wide Exit Process audit for their support and cooperation.

We received input and assistance from the following:
HR Department and Payroll Division
Finance Department
IT Department

Auditor:
Charis Newberry, Internal Auditor

Surprise Internal Audit

Vision

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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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https://www.surpriseaz.gov/2561/Internal-Auditor

CITY OF SURPRISE
Audit Committee Meeting

Council Meeting Date: August 16, 2021
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 possible action pertaining to Form I-9 and E-Verify Compliance Audit.

Motion:
I move to approve and distribute the Form I-9 and E-Verify Compliance Audit report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2020-2021 Annual Audit Plan approved by the Audit Committee on November 19, 2020.

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 FY 2020-2021 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:

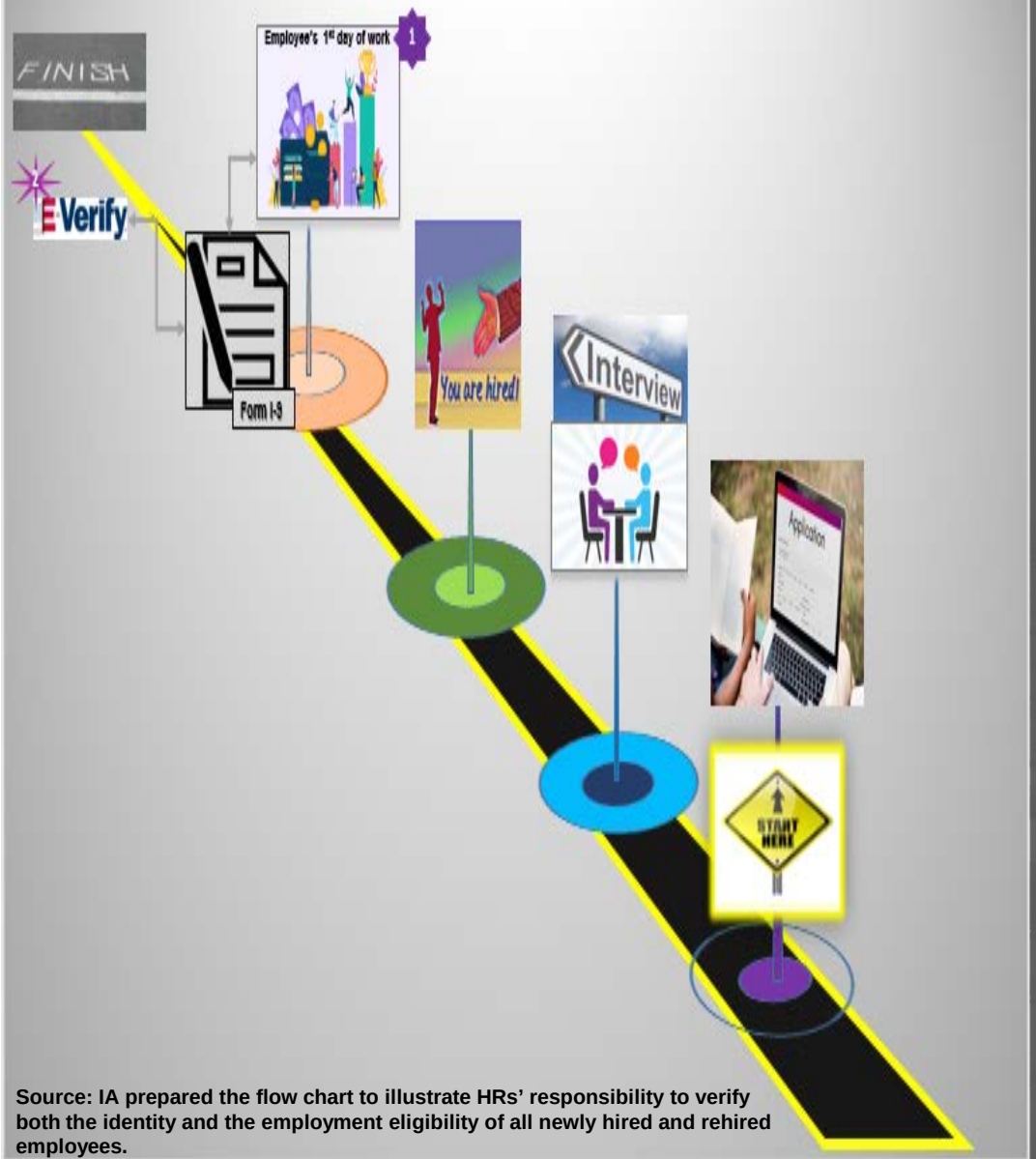
1. Audit Report E-Verify

SURPRISE
ARIZONA

Form I-9 and E-Verify Compliance

April 14, 2021

Table of Contents



Source: IA prepared the flow chart to illustrate HRs' responsibility to verify both the identity and the employment eligibility of all newly hired and rehired employees.

Executive Summary and Observations

Executive Summary

On 03/3/2021, Internal Audit (IA) conducted the City of Surprise (City) Form I-9 and E-Verify Compliance audit as part of the FY2020-2021 Annual Audit Plan. The audit evaluated the City's compliance with federal and Arizona laws related to verifying the identity and eligibility of employees to work in the United States (U.S.). Access to personal identifiable information (PII) and record retention procedures related to Form I-9 and E-Verify were assessed to ensure compliance with federal, state, and City laws, regulations, and policies and procedures.

Based on audit testing performed, the City's procurement procedures are materially in compliance with A.R.S.§41-4401(B) by containing the required E-Verify language in contract templates. An opportunity exists to enhance compliance with A.R.S. §41-4401(B) by conducting random verification procedures to ensure City contractors and subcontractors comply with federal immigration laws and regulations and E-Verify requirements.

The Human Resources Department (HR) has documented policies and procedures that require City compliance with Form I-9 and E-Verify laws and regulations. The audit report identifies opportunities for HR, Parks & Recreation (P&R), and Sports & Tourism (S&T) to strengthen their compliance by adhering to all applicable Memorandum of Understanding (MOU) guidelines outlined in the E-Verify Manual and the U.S. Citizenship and Immigration Services (USCIS) regulations.

The Detail Observations section of this report provides additional opportunities to limit access to PII and on how the City can further enhance its compliance with federal and state Form I-9 and E-Verify laws and regulations. Audit recommendations related to HR retention compliance were included in the Terminated Employee Exit-Process audit report and, therefore, not included in the Detail Observations section of this audit report.

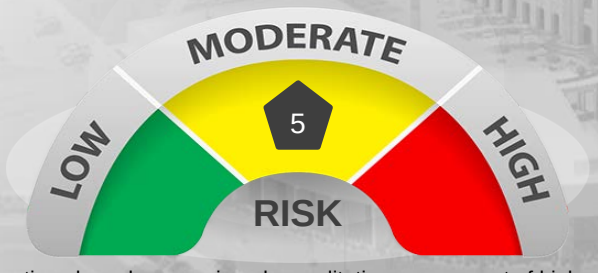
HR's Form I-9 and E-Verify Achievement

During the Form I-9 and E-Verify Compliance audit, on 3/25/2021, HR implemented an enhanced process for capturing and tracking Form I-9 follow-up items through Munis. The new process will allow HR to send an electronic reminder to the employee to replace an expiring ID with a new document, which will permit timely processing.

Observations

1. HR should establish formalized Form I-9 training to comply with the USCIS. (Page 5)
2. HR should establish formalized E-Verify training to comply with the E-Verify Program**.** (page 6)
3. Random verifications of City contractors and subcontractors compliance with E-Verify regulations should be conducted. (Page 7)
4. Access to systems maintaining PII should be based on the principle of least privilege access rights. (Page 8)
5. P&R and S&T should establish a policy and procedures to secure PII data. (Page 9)

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

The USCIS requires employers that hire new employees after 11/06/1986 to complete Form I-9, Employment Eligibility Verification, to verify an employee's identity and employment eligibility to work in the U.S. Information provided by employees on the Form I-9 is electronically matched against records available to the Social Security Administration (SSA) and the Department of Homeland Security (DHS) through the web-based E-Verify system.

The Legal Arizona Workers Act (LAWA) went into effect on 01/01/2008 and prohibited Arizona businesses from knowingly or intentionally hiring an employee that does not have the legal right or authorization under federal law to work in the U.S. The law requires employers in Arizona to use the E-Verify system to verify the employment authorization of all employees hired after 12/31/2007. In addition to the LAWA requirements, Arizona Revised Statutes (A.R.S.) §41-4401(B) requires the City to establish procedures to ensure that City contractors and subcontractors comply with the federal immigration laws and regulations to work in the U.S.

Section 2.8, Employment Eligibility/E-Verify, in the HR Employee Policy Manual (EPM), provide employees and elected officials with information under the Immigration Reform and Control Act of 1986 (IRCA), which requires the City to verify both the identity and the employment eligibility of all newly hired and rehired employees. After completing Form I-9 and the E-Verify process, HR must retain the Form I-9, E-Verify confirmation, and relevant support documentation in the employee's personnel file for the employee's term of employment or at least three years after termination, whichever is longer.

Objectives

The objectives of the audit were to determine whether:

1. HR's hiring policies and procedures comply with the EPM Section 2.8, Form I-9, and E-Verify laws and regulations.
2. Employee PII related to Form I-9 and E-Verify is appropriately restricted and safeguarded from unauthorized access.
3. Procurement Division complies with E-Verify and A.R.S. §41-4401(B).

Scope / Methodology

The audit scope included City compliance with Form I-9 and E-Verify activity from 09/30/1996 through 03/22/2021 and Procurement Division contracts for 07/01/2020 through 03/22/2021. Procedures included:

- Interviews and discussion with HR, Procurement Division, IT, P&R, S&T, and other appropriate City personnel
- Review of HR and Procurement Division policies and procedures and A.R.S. laws and regulations related to Form I-9 and E-Verify
- Analysis and sample-based testing of HR and Procurement Division supporting documentation for compliance with Form I-9 and E-Verify transactions
- User access review for systems storing PII related to Form I-9 and E-Verify

Detailed Observations – Moderate Risk

Observations	Recommendations	Management Responses
1. HR should establish formalized Form I-9 training to comply with the USCIS. The USCIS Form I-9 Instructions and the E-Verify User Manual provide guidelines on how employers should document verification of the identity and employment authorization of newly hired and retired employees. Based on inquiry and examination of a combination of 40 out of 2,011 active and terminated employees' Form I-9 personnel files: • Ten files did not contain a copy of a U.S. passport and or passport barcode for employees that presented the documents to establish their identity • Outdated versions of Form I-9 were used for four files • Section 2 on Form I-9 was not completed as required for one active employee • One active employee's file was missing a Form I-9 Based on inquiry and examinations of 18 out of 36 rehired employees' Form I-9 personnel files: • Section 3 of Form I-9 was not completed for 18 out of 18 files • Outdated versions of Form I-9 was used for seven out of 18 files • Three files were missing copies of employees' passport ID and passport barcode • One file was missing a Form I-9 HR began making corrections during the audit process. Formalized Form I-9 training has not been established to serve as a reference guideline for staff. Staffing turnover, including layoffs, has resulted in a loss of institutional Form I-9 knowledge. **Risk:** • The City might be subjected to penalties under federal law if Form I-9 is not completed correctly. • Policies and procedures may not be current and comply with USCIS and DHS regulations.	HR Department should: A. Establish a formalized Form I-9 training that all applicable City staff is required to complete annually. B. Correct any errors or omissions identified during the audit C. Periodically, review and update EPM Section 2.8 to ensure consistency with the USCIS rules and responsibilities for Form I-9 and E-Verify, including but not limited to updating: • Section 2.8(A)(3) to include the term "rehires" • Section 2.8 (B)(d) to include the completion of Form I-9 Section 3 for rehires	A. Concur. HR Manager provided I-9 training on 05/10/2021 and purchased a recording of a live webinar I-9 training that took place 05/20/2021 (pending receipt). Staff will be trained by 08/15/2021, and annual training will be established annually beginning in January 2022. B. Concur. HR Manager will ensure any errors or omissions are corrected by 08/30/2021. C. Concur. HR Manager will ensure EPM 2.8 is reviewed for potential updates annually. HR Manager will update EPM 2.8 as indicated by 10/15/2021.

Detailed Observations – Moderate Risk

Observations	Recommendations	Management Responses
2. HR should establish formalized E-Verify training to comply with the E-Verify Program. The MOU and A.R.S. §23-214 require Arizona employers to verify employees' employment eligibility through the E-Verify Program. Based on the review of 40 out of 2,011 active and terminated employees' Form I-9 personnel records: • Four employee files did not contain an E-Verify case verification form and or a Form I-9. • One terminated employee's E-Verify case verification was completed 19 business days after the three-day requirement. No documentation was available to support the reason for the delay in E-Verify processing. Based on the testing of Form I-9 personnel records for 18 out of 36 rehired employees: • Two files did not have an E-Verify case verification form or rehire records. • One file contained outdated E-Verify case verification documentation • One employee's E-Verify case verification was completed seven business days after the three-day requirement. No documentation was available to support the reason for the delay in E-Verify processing. The E-Verify law requires employers to file a signed, sworn, and legal employment affidavit with the secretary of state indicating that the Employer does not employ unauthorized aliens. HR did not have the affidavit available upon request. E-Verify Participation posters observed at City Hall are posted in English only and not in the required dual English and Spanish. Formalized E-Verify training has not been established to serve as a reference guideline for staff. Staffing turnover, including layoffs, has resulted in a loss of institutional Form I-9 knowledge. **Risk:** • Possibly subject the City to a monitoring and compliance review by the DHS.	HR Department should: A. Establish a formalized E-Verify training that staff is required to complete annually. B. Correct any errors or omissions identified during the audit. C. Post "E-Verify" posters both in English and Spanish. D. Ensure future copies of signed, sworn, and legal documents relevant to Form I-9 and E-Verify are maintained in HR files.	A. Concur. HR Manager will establish that E-Verify refresher training will be conducted annually beginning January 2022. B. Concur. HR Manager will ensure any errors or omissions are corrected by 08/30/2021. C. Concur. On 05/12/2021, new English and Spanish posters were placed in common areas in City Hall and distributed to off-site Admins to place in break rooms/common areas. D. Concur. HR Manager will ensure future copies of signed, sworn, and legal documents relevant to Form I-9 and E-Verify are retained in HR files.

Detailed Observations – Moderate Risk

Observations	Recommendations	Management Responses
3. Random verifications of City contractors and subcontractors compliance with E-Verify regulations should be conducted. A.R.S. §41-4401(B) requires the City to establish procedures to conduct random verification of the employment records of City contractors and subcontractors to ensure their compliance with the federal E-Verify Program. As of 03/18/2021, random E-Verify verification procedures are not performed on the City's 800 plus active contracts. Based on IA's professional judgment, a sample of six City contractors and their associated subcontractors were selected for review to confirm their compliance with E-Verify three-day case verification requirement: • One vendor did not have the required E-Verify case verification on file and generated the document during the audit. • One vendor did not meet the three-day E-Verify case verification requirement for two out of six employees reviewed and did not provide the subcontractor's information by the end of the audit. • Two vendors provided incorrect or incomplete information and did not forward the correct E-Verify case verifications by the end of the audit. • One vendor did not provide the requested information from their third-party vendor by the end of the audit. • One vendor had no exceptions for the sample of E-Verify case verifications reviewed. Procurement Division policy and procedures do not address random verification of contractors and subcontractors compliance with E-Verify requirements. Staff was aware of the A.R.S. §41-4401(B) requirements, but due to the lack of any policy and or procedure requiring random verification, it was not completed. **Risk** • A contractor or subcontractor not complying with E-Verify requirements is considered a breach of contract and might be subject to penalties up to and including termination of the contract. • The City might be unaware of the breach in E-Verify contract terms.	Finance Department should: A. Develop and document a policy and procedure for randomly verifying City contractors and subcontractors compliance with the federal E-Verify Program.	A. Concur - Finance will implement a policy and process to satisfy state requirements by 12/31/2021.

Detailed Observations – Moderate Risk

Observations	Recommendations	Management Responses
4. Access to systems maintaining PII should be based on the principle of least privilege access rights. The City Information Security Policies and Procedures Section 4.5.1 – User Authentication states: "Host computer and network system access controls are required to ensure that only authorized persons are using the system resources and information necessary to perform their job duties." HR maintains Form I-9s, E-Verify case verifications, and supporting documentation in the City's LaserFiche system. On 03/19/2021, 23 City employees and one generic administration user IDs had access to employee PII associated with Form I-9s and E-Verify case verifications. Audit testing and discussions with Information Technology Department (IT) and HR staff identified potentially 11 out of 24 user ID accounts that provided access to employee PII that was not always required to perform their job duties. During the audit, HR submitted a request to IT to deactivate ten user ID accounts, and IT deactivated the generic administration user ID account. On 05/04/2021, three active HR users had access to the web-based E-Verify system. The system allows the City to confirm the eligibility of employees to work in the U.S. by electronically matching new hire Form I-9 information against records available to the SSA and the DHS. One active HR user did not require access to the system. HR deactivated the access during the audit on 05/11/2021. User access to LaserFiche and the E-Verify system is not reviewed using the information security concept principle of least privilege, in which user access rights, accounts, and computing processes are restricted to the minimal level of user rights that allow a user to perform his/her job duties. **Risk** • Excess access to employee PII increase the potential risk of identity theft and miss-use of confidential information	HR Department should: A. Ensure that access to systems containing PII is based on the minimum level of user rights and privileges necessary to perform his/her job duties.	A. Concur. User access has been decreased to comply with the minimum level of user rights and privileges. HR Manager will ensure access review annually each January beginning January 2022.

Detailed Observations – Moderate Risk

Observations	Recommendations	Management Responses
5. P&R and S&T should establish a policy and procedures to secure and restrict unauthorized access to PII data. The E-Verify User Manual Privacy Guideline requires the City to protect and store employee PII in a safe and secure location in which only authorized users can access PII data. Two City departments (P&R and S&T) conduct new employee orientations (NEO) for their seasonal part-time employees. The departments collect Form I-9s and the required supporting documents containing employee PII. P&R offers NEO training mornings and afternoons and secures Form I-9s and PII data in a locked filing cabinet in preparation for hand delivery to HR. S&T offers NEO training in the mornings and hand-deliver Form I-9s and PII documents to HR on the day of NEO training. Based on inquiry and IA's evaluation during the P&R facility tour on 05/6/2021 and S&T facility tour on 05/26/2021, it was determined that: • P&R and S&T staff, processing Form I-9s, have not read or reviewed the E-Verify User Manual and USCIS regulations relevant to employee PII data. • P&R and S&T rely solely on HR for revised forms, Form I-9 regulatory guidance, and updates to ensure compliance with the E-Verify Program. • A P&R staff had key access to PII data before receiving Form I-9 training • Both satellite departments have no written policy and procedures to safeguard PII data **Risk:** • Increased potential of unauthorized access to PII and identity theft	P &R Department should: A. Develop and implement a departmental policy and procedures to safeguard PII data and establish controls to restrict unauthorized access to PII data. S&T Department should: B. Develop and implement a departmental policy and procedures to safeguard PII data and establish controls to restrict unauthorized access to PII data.	A. Concur- The Parks and Recreation Department will develop and implement departmental policy and procedures to safeguard PII data and establish controls by 07/15/2021. B. Concur- The Sports and Tourism Department will work with the Human Resources Department to develop and implement departmental policy and procedures to safeguard PII data and establish controls by 07/15/2021.

Appendix A – Data Reliability and Risk Rating

Data Reliability

The data utilized for the work performed was either obtained directly from Munis, the City of Surprise's financial system of record or obtained directly from HR LaserFiche.

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 Form I-9 and E-Verify Compliance audit, IA performed testing on samples of Form I-9s, E-Verify case verification forms, and supporting documentation and identified no errors or limitations in the data material in the 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, identified related controls, and addressed 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 Human Resources 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 Form I-9 and E-Verify Compliance audit for their support and cooperation.

We received input and assistance from the following:

HR Department
Finance (Procurement Division)
IT Department
P&R Department
S&T Department

Auditors:
Carol Holley, Internal Auditor, Sr.
Charis Newberry, Internal Auditor

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CITY OF SURPRISE
Audit Committee Meeting

Council Meeting Date: August 16, 2021
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 FY2019-2020 and FY2020-2021 Summary of Audit Recommendations.

Motion:
I move to approve and distribute the FY2019-2020 and FY2020-2021 Audit Recommendation Status Report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY FY2019-2020 and FY2020-2021 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 FY2020-2021 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 Recommendation Status Rpt 9Aug2021

Audit Recommendation Status Report

August 9, 2021

Carol Holley, Sr. Internal Auditor

Summary

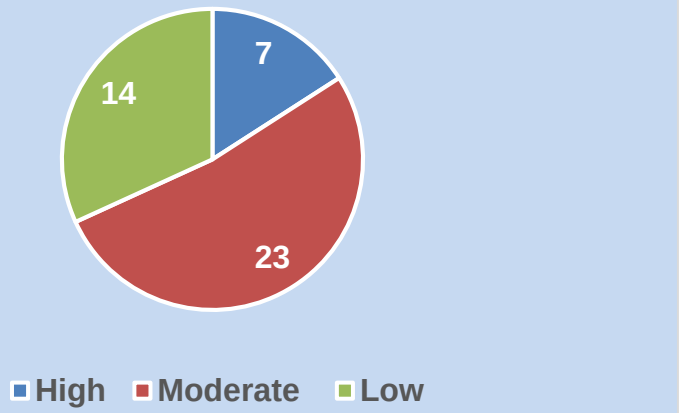
Periodically, Internal Audit (IA) reports to the Audit Committee on actions taken by staff to address audit recommendations. This report summarizes actions taken by staff for the period of November 1, 2020 to August 6, 2021.

During the period, out of 44 recommendations, 25 recommendations were implemented, one recommendation was partially implemented and 18 recommendations continue to be monitored by IA staff. Exhibit A summarizes the 18 OnGoing audit recommendations.

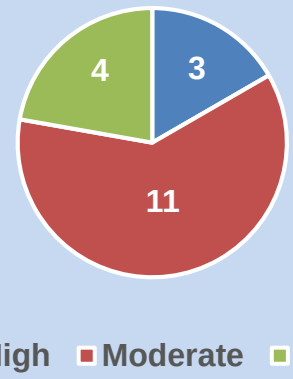
IA appreciates the time and resources allocated by City of Surprise (City) departments to reduce the number of open audit recommendations and to limit risk to City assets and resources.

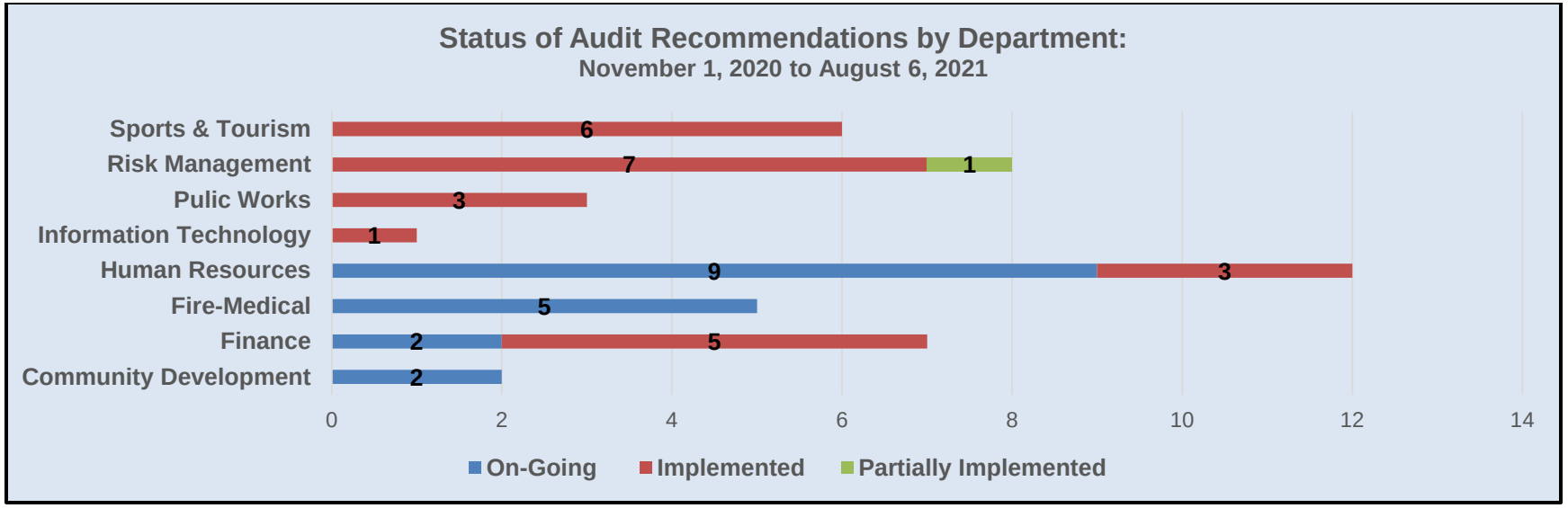
Contents

Risk Rating of Audit Recommendations:
November 1, 2020 to August 6, 2021



Risk Rating Summary for OnGoing Audit Recommenations:
As of August 6, 2021




Status of Audit Recommendations by Department:
November 1, 2020 to August 6, 2021
Sports & Tourism
Risk Management
Pulic Works
Information Technology
Human Resources
Fire-Medical
Finance
Community Development
6
7
1
3
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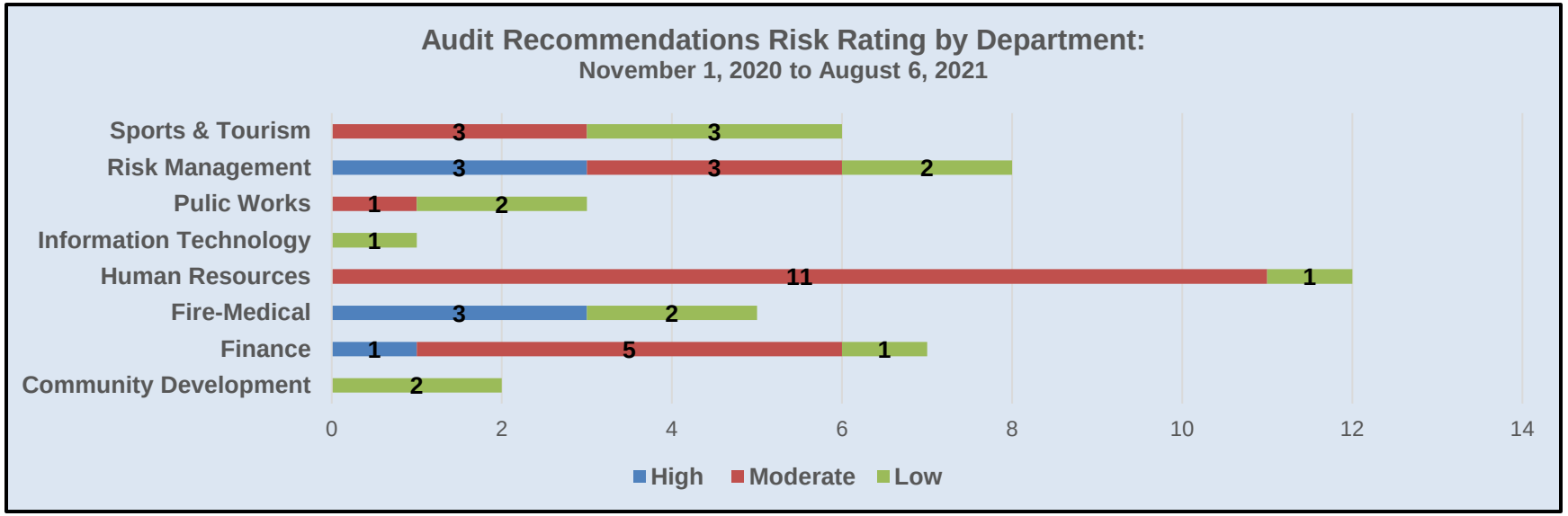
4
6
8
10
12
14
On-Going
Implemented
Partially Implemented


Audit Recommendations Risk Rating by Department:
November 1, 2020 to August 6, 2021
Sports & Tourism
Risk Management
Pulic Works
Information Technology
Human Resources
Fire-Medical
Finance
Community Development
3
3
3
3
2
1
2
1
11
1
3
2
1
5
1
2
0
2
4
6
8
10
12
14
High
Moderate
Low

Purpose and Standards

The recommendations referenced in each audit report were designed to decrease the risk to City assets and improve the efficiency and effectiveness of operations. In response to each audit recommendation, management developed an action plan to address identified risks.

The purpose of performing audit follow-up procedures is to determine the status of management action plans. *Governmental Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing* reference the need for audit follow-up procedures:

Governmental Auditing Standards:

GAGAS 8.30 *– "Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives."*

International Standards for the Professional Practice of Internal Auditing:

2500 – Monitoring Progress
"The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management."

2500.A1 – *"The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action."*

Methodology

After completing each audit, audit observations and recommendations are tracked in SharePoint by IA. Periodically, IA performs follow-up procedures on the status of audit recommendations with the appropriate City departments. Departments self-report the status of management action plans via SharePoint. Testimonial or documentary evidence is obtained and reviewed by IA. In some cases, IA will go beyond the standard process and perform more in-depth verification of the extent to which specific audit recommendations have been implemented and issue a separate report on this work.

All recommendations reviewed were categorized as follows:

OnGoing – City staff partially concurred or concurred with the audit recommendation. Staff is currently working on implementing the audit recommendation by the management assigned completion date **(See Exhibit A.)**

Partially Implemented – City staff partially concurred or concurred with the audit recommendation and provided some evidence of progress on the recommendation; however, either element of the audit recommendation was not addressed, or the department reported it has begun to implement the audit recommendation and has not yet completed the implementation of the management action plan.

Implemented – City staff concurred with audit recommendations and provided sufficient and appropriate evidence to support elements of implementing the audit recommendation.

Status Report for Audit Recommendations

Audit ID	Section ID	Department	Contact	Report Date	Recommendation	Current Status	Management Update Comments	Risk Level
2020-01	**Building Safety Permit Processing**							
	3A	Community Development	Chris Boyd	6/16/2019 12:00:00 AM	3.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.	OnGoing - OnTrack	Management requested an extenstion of February 1, 2023. The extenstion date correlates with the implementation of LIS upgrades.	*Low*
	3B	Information Technology	Tammie Hollowell	9/16/2019 12:00:00 AM	3.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.	OnGoing - OnTrack	Community Development has completed the final stages of contract negotiation to develop enhancements to the LIS software from the EMS vendor which will address the recommendations of the audit.	*Low*
2021-01	**Fire-Medical Pharmaceutical Safeguards and Contracts Audit**							
	1A	Fire - Medical	Tom Abbott	12/30/2020 12:00:00 AM	Collaborate with the Surprise Police Department to conduct a security assessment of SFMD. Where feasible, implement assessment recommendations to ensure the safety of the City's first responders and City assets.	Not Implemented	SFMD Administration concurs and will conduct a security assessment in collaboration with Surprise Police Department (SPD) by December 31, 2021. Implementation of any recommendation will be based on the completed SPD report.	*High*
	1B	Fire - Medical	Tom Abbott	12/30/2020 12:00:00 AM	Ensure staff's compliance with Arizona Department of Health Services regulation for documenting the custodial transfer of SFMD dug box at shift change.	Not Implemented	SFMD concurs with this recommendation, as the department will review the current drug box inspection policy and custody log for any improvement on documentation workflow. The department will assign the task to the Administrative Assistant Fire Chief for completion and develop a tutorial for department members on how to complete a daily drug box inspection by December 31, 2021.	*High*
	1C	Fire - Medical	Tom Abbott	12/30/2020 12:00:00 AM	Ensure compliance with the DEA pharmaceutical refrigerator protocol.	Not Implemented	SFMD Administration concurs and will revise policies to comply with items contained in this recommendation and has assigned this to the Administrative Assistant Fire Chief with completion anticipated when the new Readiness Center and Fire Station 308 opens.	*High*
	2A	Fire - Medical	Tom Abbott	12/30/2020 12:00:00 AM	Combine and streamline certification tracking into a single record management system.	Not Implemented	SFMD concurs with this recommendation and is researching integration methods to combine all training and certification records into one records management system. This task is assigned to the Administrative Assistant Fire Chief and will be completed by December 31, 2021.	*Low*
	3A	Fire - Medical	Tom Abbott	12/30/2020 12:00:00 AM	Review and update EMS written policies and procedures, as necessary.	Not Implemented	SFMD concurs with this recommendation. SFMD reviewed and revised the policies for Station Security in December 2020, Drug Box Accountability in March 2021, Electronic Patient Care Records in March 2021, and will update existing policies as well as develop new policies as appropriate within the limitation of current staffing. The balance policies require review have been assigned to the Medial Services Battalion Chief for completion by December 31, 2021.	*Low*
2021-02	**City-Wide Exit Process Audit**							
	1A	Human Resources	Connie Welsch	2/26/2021 12:00:00 AM	Work in partnership with IT to identify software platforms the City currently owns and utilize that can be a feasible way to automate Section 3.11.	Not Implemented	Concur. The email distribution process is efficient as it notifies the appropriate City personnel of the separation. By 6/14/2021, this document will be placed in the separated individuals' personnel file to show when and to whom the notification was sent. This documents a history of notification for departments to conduct their out-processing regarding individual separation. HR will meet with IT by 8/01/2021 to develop a plan to collaborate, research, and evaluate viable options for automation.	***Moderate***

Status Report for Audit Recommendations

Audit ID	Section ID	Department	Contact	Report Date	Recommendation	Current Status	Management Update Comments	Risk Level
	1B	Human Resources	Connie Welsch	2/26/2021 12:00:00 AM	Collaborate with IT and Finance to create and implement city-wide policies and procedures for new hires to sign for City property on their first day of employment; immediate supervisors to sign for the return of City property on the separated individual's last physical day of employment, and collect any debt reimbursement by individuals' last physical employment day or deduct from the separated individual's final wages.	Not Implemented	Concur. HR Manager will review and update the City EPM as appropriate. HR will collaborate with Finance and IT to create a policy/process/form. Completed by 10/01/202	***Moderate***
	1D	Finance	Andrea Davis	2/26/2021 12:00:00 AM	Ensure previous agreed-upon management response is followed. Changes to a management response should be submitted to IA in writing.	Not Implemented	Concur. The previous resolution to the matter discussed in item "D" ended up not being a viable resolution. A more robust solution will be implemented by 6/30/2021 and continuously followed from that point on.	***Moderate***
2021-03	**Form I-9 and E-Verify Compliance**							
	1A	Human Resources	Connie Welsch	4/14/2021 12:00:00 AM	Establish a formalized Form I-9 training that all applicable City staff is required to complete annually.	Not Implemented	Concur. HR Manager provided I-9 training on 05/10/2021 and purchased a recording of a live webinar I-9 training that took place 05/20/2021 (pending receipt). Staff will be trained by 08/15/2021, and annual training will be established annually beginning in January 2022,	***Moderate***
	1B	Human Resources	Connie Welsch	4/14/2021 12:00:00 AM	Correct any errors or omissions identified during the audit	Not Implemented	Concur. HR Manager will ensure any errors or omissions are corrected by 08/30/2021.	***Moderate***
	1C	Human Resources	Connie Welsch	4/14/2021 12:00:00 AM	Periodically, review and update EPM Section 2.8 to ensure consistency with the USCIS rules and responsibilities for Form I-9 and E-Verify, including but not limited to updating: • Section 2.8(A)(3) to include the term "rehires" • Section 2.8 (B)(d) to include the completion of Form I-9 Section 3 for rehires	Not Implemented	Concur. HR Manager will ensure EPM 2.8 is reviewed for potential updates annually. HR Manager will update EPM 2.8 as indicated by 10/15/2021.	***Moderate***
	2A	Human Resources	Connie Welsch	4/14/2021 12:00:00 AM	Establish a formalized E-Verify training that staff is required to complete annually.	Not Implemented	Concur. HR Manager will establish that E-Verify refresher training will be conducted annually beginning January 2022.	***Moderate***
	2B	Human Resources	Connie Welsch	4/14/2021 12:00:00 AM	Correct any errors or omissions identified during the audit.	Not Implemented	Concur. HR Manager will ensure any errors or omissions are corrected by 08/30/2021.	***Moderate***
	3A	Finance	Andrea Davis	4/14/2026 12:00:00 AM	Develop and document a policy and procedure for randomly verifying City contractors and subcontractors compliance with the federal E-Verify Program.	Not Implemented	Concur - Finance will implement a policy and process to satisfy state requirements by 12/31/2021.	***Moderate***
	4A	Human Resources	Connie Welsch	4/14/2021 12:00:00 AM	Ensure that access to systems containing PII is based on the minimum level of user rights and privileges necessary to perform his/her job duties.	Not Implemented	Concur. User access has been decreased to comply with the minimum level of user rights and privileges. HR Manager will ensure access review annually each January beginning January 2022.	***Moderate***
	5A	Human Resources:Payroll	Connie Welsch	4/14/2021 12:00:00 AM	Develop and implement a departmental policy and procedures to safeguard PII data and establish controls to restrict unauthorized access to PII data.	Not Implemented	Concur- The Parks and Recreation Department will develop and implement departmental policy and procedures to safeguard PII data and establish controls by 07/15/2021.	***Moderate***

Audit Observation Risk Rating

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
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
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

CITY OF SURPRISE
Audit Committee Meeting

Council Meeting Date: August 16, 2021
Submitting Department: City Manager Office
Staff Recommendations: None

Contact Person:
District: Citywide

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

Agenda Wording:
Consideration and action pertaining to FY2021-2022 Annual Audit Plan.

Motion:
I move to approve the FY2021-2022 Annual Audit Plan.

Background:
This item has been placed on the agenda to identify and obtain approval from the Audit Committee for how direct and indirect Internal Audit hours are allocated for FY2021-2022

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 FY2021-2022 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. Proposed FY2022 Audit Plan

. Activities	*Department*	*Objectives*	Estimated Audit Hours
Water Asset Management	*Water*	• *Review and assess the implementation process and system access in place for new software* • *Determine whether or not the City's Information Technology Change Management controls and best practices were followed*	670
Utility Billing	*Finance*	*Evaluate controls in place for collecting, recording and reconciling utility billing statements*	720
Court Fee Waivers	*City Court*	*Determine if fee waivers are processed in compliance with the Courts Coumpliance Assistance Program (CAP)*	480
Procurement	*Finance*	*Determine whether or not city's procurement process is in compliance with city policies, procedures,municipal code, and laws and regulations*	520
Payroll Trends A/P Trends PCard Trends	*Citywide*	*Review high risk transactions for potential noncompliance with City policies and procedures*	300
Total Direct Hours			***2,690***
Direct Hours%			***65%***
Administrative			
Audit Committee/City Council	*NA*	*Preparation and attendance for periodic meetings*	50
Annual Audit Reports	*NA*	*Annual Audit Plan* *Annual Audit Activity Report*	100
ALGA Peer Review	*NA*	*Complete Internal Audit's second ALGA Peer Review in compliance with Governmental Auditig Standards (Yellow Book)*	160
Meetings/Misc./Westside Auditors Networking/Unscheduled Requests	*NA*	*Misc. Meetings/Administrative Tasks/Unplanned management requests for service / Participate in an external Peer Review as a team member*	320
GAGAS 3.76 Requires auditors to obtain 80 CPEs every two years	*NA*	*To meet Government Auditing Continuing Professional Education standards*	80
Holidays/City Closure	*NA*	*City Holidays (10 holidays per auditor)*	160
Paid Leave (PTO/PSO)	*NA*	*PTO/PSO (7/1/2021 to 6/30/2022)*	600
Total Indirect			1,470
Indirect Hours %			**35%**
Total Audit Hours			**4,160**