



**CITY OF SURPRISE**  
**Audit Committee**  
**16000 N. Civic Center Plaza**  
**Surprise, AZ 85374**  
 Thursday, June 22, 2023 @ 3:30 PM  
**COUNCIL 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 to elect a City of Surprise Audit Committee Chairperson and Vice-Chairperson.          | City Auditor |
| 2. | Citywide | Consideration and action pertaining to approval of the March 29, 2023 meeting minutes.                          | City Auditor |
| 3. | Citywide | Discussion and action pertaining to changing quarterly Audit Committee meetings from a Wednesday to a Thursday. | City Auditor |
| 4. | Citywide | Presentation, discussion, and action pertaining to the Accounts Payable Audit Report.                           | City Auditor |
| 5. | Citywide | Presentation, discussion, and action pertaining to the Management of Policies and Procedures Audit Report.      | City Auditor |
| 6. | Citywide | Presentation, discussion, and action pertaining to the Quarterly Audit Recommendations Status Report.           | City Auditor |
| 7. | Citywide | Presentation and discussion pertaining to the City Auditor Department Newsletter.                               | City Auditor |

- 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

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SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED: Thursday June 15, 2023 @ 11:30 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**

Council Meeting Date: June 22, 2023  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

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

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**Agenda Wording:**

Consideration and action to elect a City of Surprise Audit Committee Chairperson and Vice-Chairperson.

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**Motion:**

I move to elect \_\_\_\_\_ as the Chairperson.  
I move to elect \_\_\_\_\_ as Vice-Chairperson.

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**Background:**

This item was placed on the agenda in compliance with Section III of the City of Surprise Audit Committee Bylaws, which requires the annual selection by a majority vote of an Audit Committee Chairperson and Vice-Chairperson.

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**Objective Analysis:**

The Chairperson has the authority to sign correspondence as the official representative of the Audit Committee. During the absence of the Chairperson, the Vice-Chairperson shall act as the presiding officer over all Audit Committee meetings and activities.

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**Policy Compliant:**

Sec. 2-304 of the City of Surprise Municipal Code (Code) directs the establishment of the City of Surprise Audit Committee. The Code authorizes the adoption of Audit Committee Bylaws. Section III of the Bylaws requires the Audit Committee members to nominate and vote annually to designate a Chairperson and Vice-Chairperson.

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**Financial Impact:**

There is no financial impact associated with this item.

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**Budget Impact:**

There is no budget impact associated with this item.

**FTE Impact:**

There is no FTE impact associated with this item.

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**ATTACHMENTS:**

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**CITY OF SURPRISE  
Audit Committee**

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Council Meeting Date: June 22, 2023  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

---

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

---

**Agenda Wording:**

Consideration and action pertaining to approval of the March 29, 2023 meeting minutes.

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**Motion:**

I move to approve the minutes of the March 29, 2023 City Audit Committee meeting.

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**Background:**

This item has been placed on the agenda to discuss the results of work performed as part of the FY2022-2023 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

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**Objective Analysis:**

The mission of the City Audit Committee is to provide advice to the 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 city 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.

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**Policy Compliant:**

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the city 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.

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**Financial Impact:**

This item relates to work performed as part of the FY2022-2023 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

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**Budget Impact:**

There is no budget impact associated with this item.

**FTE Impact:**

There is no FTE impact associated with this item.

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**ATTACHMENTS:**

1. 2023-03-29 Summary draft
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**CITY OF SURPRISE**  
**Audit Committee Meeting**  
**16000 North Civic Center Plaza**  
**Surprise, AZ 85374**

**Wednesday, March 29, 2023 – 3:00 p.m.**

**CALL TO ORDER**

Chair Alan Meyer called the **Audit Committee Meeting** to order at 3:07 p.m. at Surprise City Hall, Overflow Room, 16000 North Civic Center Plaza Surprise, Arizona 85374, on Wednesday, March 29, 2023.

**ROLL CALL**

Alan Meyer, Vice-Chair, Tatiana Young (Absent), Committee Member, Councilmember Chris Judd, Councilmember Ken Remley, Holly Osborn, Director of Parks and Recreation, Andrea Davis, Director of Finance

**PLEDGE OF ALLEGIANCE**

**CURRENT EVENTS AND REPORTS**

None.

**STAFF REPORTS**

None.

**STAFF PRESENT**

Carol Holley, City Auditor, Angela Hanson, Internal Auditor, Athena DoBell-Garcia, Internal Auditor-Sr., Erick Martin, Assistant Director of Finance, Brittany Williams, Heinfeld Meech & Co., P.C., Genevieve Martin Del Campo, Staff Liaison.

**CALL TO THE PUBLIC**

None.

**REGULAR AGENDA ITEM**

1. **Action item: Consideration and action pertaining to the December 7, 2022 meeting minutes:**

Alan Meyer moved to approve the December 7, 2022, Audit Committee Meeting minutes, and Councilmember Judd seconded the motion. Motion carried 3-0.

2. **Action item: Presentation and discussion pertaining to the FY2021-2022 Annual Comprehensive Financial Report (ACFR) and associated reports:**

Brittany Williams with Heinfeld Meech & Co., P.C. gave an overview of the Annual Comprehensive Financial Report (ACFR) and associated reports.

Councilmembers Remley and Judd applauded the great work of the reports. Councilmember Remley asked if it was OK that we projected a little bit high for City growth projections in the Development Impact Fee Report. Brittany responded yes, it is common, especially with as much growth that the city is seeing.

Councilman Remley stated that considering the amount of burden we are putting on the resident, the city is doing an amazing job at managing the growths and assets of the city. He then asked if the comment from last year concerning federal programs was fully corrected and cleared. Brittany responded that yes, the comment had been fully corrected. Andrea clarified that the findings related to federal programs were from the FY 2020 audit and were cleared in FY 2021. Andrea added that last year's finding was on a development agreement payment that was reported in the incorrect year.

Councilmember Remley asked if there is a new engagement letter in the works. Andrea responded that we recently received a copy for the 2023 audit, so we will get another one in 2024.

Councilmember Remley stated that the city just got a triple-A bond rating and asked for suggestions on how we can monitor things so that when the agencies come out, we will not be worried about losing that rating. Brittany responded to stay away from the big findings and internally manage and look at the fund balance and how funds are being handled. She further stated that she is sure that Andrea and Erick know exactly what they are looking at and managing.

Councilmember Remley asked if the city is paying income taxes on the interest income. Andrea responded that no, the city is tax-exempt. Councilmember Remley further asked why the city has Muni bonds. Andrea responded that the city is very limited on what it can invest per state statute, so Muni bonds have been a safe option for the city.

**3. Action item: Consideration and action pertaining to the Vendor Master File Audit Report:**

Angela Hanson gave an overview of the Vendor Master File Audit Report.

Alan asked what IRS penalties the city is at risk for. Angela responded that we did not have W-9 forms on file for some vendors, which could put us at risk for IRS penalties.

Councilmember Remley asked what is defined as a conflict-of-interest transaction. Angela responded that the definition could have a variety of scopes. She further explained that someone could have a second job with the city and then use that other occupation as a vendor. It could be that someone could have significant others, a spouse or dependents that work for another company that the city then uses as a vendor, and that family member may be in a higher position. Councilmember Judd asked if the city has a conflict-of-interest policy that outlines everything, to which Angela responded yes, but we do not have people necessarily attesting that they do not have a conflict of interest on a regular basis.

Councilmember Remley gave an example of a past conflict of interest. He then asked what do we do in our city to help identify individuals who may own companies that do business with our city. Erick responded that is something Finance has been working on and that this audit has brought it to light from a Finance perspective. He further stated that the city has a conflict-of-interest form that everyone attests to every year, where the employees indicate at that point in time that they do not have a conflict of interest, and they would inform the City if they become aware of a potential conflict. Councilmember Remley suggested that the city sends a questionnaire to every employee to identify every company that he/she or their family may own. He further states that the questionnaire could then be used as one of the ways to prevent conflicts of interest.

Andrea explained that the city has a conflict-of-interest form sent out to everyone every year to ensure businesses are identified on that end, and when a vendor is procured, they are asked if the business has any spouses or known people that work for the city. Erick added that when a vendor is on a large interview panel for a large procurement, they attest that they do not have any known conflicts of interest. Holly added that vendors sign agreements when they are on interview panels and when they are on RFP panels so that there is documentation in case a conflict of interest arises.

Andrea stated there have been improvements in the vendor process to minimize conflicts of interest as much as possible. Councilmember Remley affirmed that a conflict of interest does not necessarily mean they cannot do business; the city simply wants to know about it. Erick added that they are working with IT to create a database that can run addresses and contact information against those of city employees to see if any conflicts may arise.

Alan Meyer moved to approve the Vendor Master File Audit Report, and Councilmember Judd seconded the motion. Motion carried 3-0.

#### **4. Action item: Consideration and action pertaining to the Signature Authorization Audit Report:**

Athena DoBell-Garcia gave an overview of the Signature Authorization Audit Report.

Alan Meyer moved to approve the Signature Authorization Audit Report, and Councilmember Judd seconded the motion. Motion carried 3-0.

**5. Action item: Consideration and action pertaining to the Quarterly Audit Recommendation Status Report:**

Carol Holley gave an overview of the Quarterly Audit Recommendations Status Report.

Councilmember Remley asked if there could be a short audit on Fire-Medical procedures regarding whom the list of medications first responders initially collect from the patient goes to within the hospital the patient is transported to. Carol responded yes and asked if this was something he would like looked at right away or if it could begin in July of this year. Councilmember Remley indicated that the sooner, the better.

Alan Meyer moved to approve the Quarterly Audit Recommendations Status Report, and Councilmember Remley seconded the motion. Motion carried 3-0.

**OTHER BUSINESS AND FUTURE AGENDA ITEMS**

The next Audit Committee Meeting will be held on June 21, 2023, at 3:30 p.m.

**EXECUTIVE SESSION**

None.

**ADJOURNMENT**

Alan Meyer moved to adjourn, and Councilmember Judd seconded the motion. Motion carried 3-0. The meeting was adjourned at 4:03 p.m.

**ATTEST:**

\_\_\_\_\_  
Alan Meyer, Vice-Chair

\_\_\_\_\_  
Jackie Moucheron, 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, March 29, 2023.**

DRAFT



**CITY OF SURPRISE  
Audit Committee**

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Council Meeting Date: June 22, 2023  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

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

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**Agenda Wording:**

Discussion and action pertaining to changing quarterly Audit Committee meetings from a Wednesday to a Thursday.

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**Motion:**

I move to approve moving the quarterly Audit Committee meeting date from a Wednesday to a Thursday.

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**Background:**

On September 6, 2016, Ordinance #2016-25 of the Mayor and Council of the City of Surprise amended Chapter 2, Article VIII of the Surprise Municipal Code by adding Section 2-304, Audit Committee, that formally established an Audit Committee and its powers and duties .

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**Objective Analysis:**

The mission of the City Audit Committee is to provide advice to the 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 city 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.

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**Policy Compliant:**

Section IX, Meetings, of the Audit Committee Bylaws require the Audit Committee to meet as frequently as circumstances dictate, but at least four times annually.

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**Financial Impact:**

There is no financial impact associated with this item.

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**Budget Impact:**

There is no budget impact associated with this item.

**FTE Impact:**

There is no FTE impact associated with this item.

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**ATTACHMENTS:**

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**CITY OF SURPRISE  
Audit Committee**

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Council Meeting Date: June 22, 2023  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

---

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

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**Agenda Wording:**

Presentation, discussion, and action pertaining to the Accounts Payable Audit Report.

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**Motion:**

I move to approve and distribute the Accounts Payable Audit Report.

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**Background:**

This item has been placed on the agenda to discuss the results of work performed as part of the FY2022-2023 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

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**Objective Analysis:**

The mission of the City Audit Committee is to provide advice to the 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 city 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.

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Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the city 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 FY2022-2023 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

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**Budget Impact:**

There is no budget impact associated with this item.

**FTE Impact:**

There is no FTE impact associated with this item.

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**ATTACHMENTS:**

1. Secured - Accounts Payable Audit Report
-



**S U R P R I S E**

A R I Z O N A

# **Accounts Payable Audit Report**

To determine whether procedures and processes are in compliance with City policies, procedures, municipal code, and laws and regulations.

March 23, 2023

# Table of Contents

|   |    |
|---|----|
| Executive Summary _____   | 3  |
| Observations Summary and Risk Rating _____  | 4  |
| Detailed Observations _____   | 5  |
| 1 & 2 – Finance did not consistently require receiving documentation and documented evidence that invoices were okay-to-pay before entry in Munis _____                 | 5  |
| Figure 1 – For the 30 invoices in our review, most departments did not maintain receiving documentation, and one-third did not maintain okay-to-pay authorization _____ | 5  |
| Management Responses _____  | 6  |
| Appendix A: Background, Objectives, Scope, and Methodology _____  | 7  |
| Figure 2 – Monthly invoice values and invoice counts based on invoice entry date _____  | 8  |
| Figure 3 – Normal checks were the most frequent payment method, both in total paid and in total invoice count based on invoice entry date _____                         | 9  |
| Figure 4 – Department total invoice values and invoice counts based on invoice entry date _____   | 10 |
| Figure 5 – Average Days to Check and Days to Completion by department _____   | 11 |
| Appendix B: Data Reliability and Audit Observation Risk Rating _____  | 13 |
| Appendix C: Audit Standards and Acknowledgments _____   | 14 |

# Executive Summary

As part of the City Auditor Department’s (CAD) FY2022-2023 Annual Audit Plan, an audit of Accounts Payable (AP) for July 1, 2021, through August 31, 2022, was performed. The purpose of the audit was to determine whether procedures and processes comply with City policies, procedures, municipal code, and laws and regulations. Previously, in April 2019, the CAD analyzed AP transactions and made recommendations to improve internal controls over duplicate payments and access to personally identifiable information (PII) recorded on AP invoices in our *Accounts Payable Continuous Review Program* audit report. Additionally, in September 2021, we reviewed AP transactions and made recommendations to strengthen monitoring and PII controls in our *Accounts Payable Trends and Analysis* audit report. The AP audit report does not include procurement card (P-Card) data, as it was previously reviewed in our August 2022 *Continuous Auditing: Citywide Procurement Cards* audit report.

As part of the AP audit, we judgmentally sampled six departments based on factors like total invoice payments, invoice counts, average payment amount, and department size. Overall, we found that access to the AP module in Munis was appropriately restricted and that duties were appropriately segregated across the AP process for the sampled departments. Additionally, most or 99 percent of the City’s invoices were paid within 30 days of invoice entry. Further, we did not identify any potential duplicate payments. We did not evaluate if the City maximized available vendor discounts because this data was not maintained in the vendor master file and would require substantial manual review. We also found that Finance did not require evidence documenting the receipt of goods and/or services in Munis

unless the invoice was entered near year-end, and of the six departments sampled, five did not maintain sufficient receiving documentation in accordance with the Arizona State Library, Archives, and Public Records rules. Further, Finance did not require documented evidence that invoices submitted by departments for payment were okay-to-pay, and two of the six departments in the sample did not have documented evidence of the employee authorizing the okay-to-pay before entry in Munis for some of the invoices in our review.

As a result, this report makes recommendations to update Finance’s policies to require sufficient supporting documentation for invoices submitted to Finance for payment and to implement this policy Citywide.

Refer to Appendix A for more information about AP.

**AP has areas of achievement and an opportunity for improvement**

- ✓ Access in Munis
- ✓ Segregation of duties
- ✓ Timely payments
- ✓ No identified duplicate payments
- ? Discounts
- X Supporting documentation

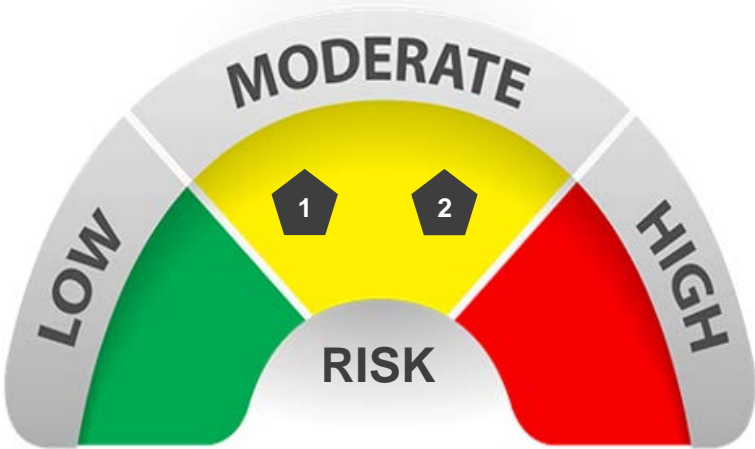
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Area of achievement     ? Area not evaluated     X Area for improvement

# Observations Summary and 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.

- 1. Finance did not consistently require receiving documentation with invoices submitted for payment.
- 2. Finance did not require documented evidence of the employee authorizing the okay-to-pay before entry in Munis.



# Detailed Observations

## 1 & 2 – Finance did not consistently require receiving documentation and documented evidence that invoices were okay-to-pay before entry in Munis.

According to the City’s *Accounts Payable Guidelines* (Guidelines), Finance’s AP Division is responsible for ensuring that the City’s vendors are properly and timely paid for services and goods rendered to the City. To do so, the Guidelines require departments to enter and approve vendor invoices in Munis. As part of this process, departments must verify the accuracy of invoices and confirm that the goods and/or services are received before entry into Munis. Additionally, the Arizona State Library, Archives, and Public Records rules require public bodies to retain financial records, including purchase orders, receiving documents, invoices, and receipts for a period of three years.<sup>1</sup>

Although departments upload invoices into Munis to initiate the invoice approvals workflow, departments are not required to document the employee authorizing the okay-to-pay before entry in Munis and are not generally required to upload receiving documentation to support that the invoiced good and/or service was received, except close to the year-end. For invoices entered close to the year-end, AP requires the inclusion of receiving documentation in Munis to substantiate the fiscal year in which goods and/or services were received. However, according to AP, it does not require receiving documentation except for the year-end period.

Although the departments in our sample informed us that they verify that goods and/or services are received prior to entry in Munis and that invoices were okayed by department staff for payment before entry in Munis, not all could provide evidence that it had done so. Specifically, we reviewed

**Figure 1**

For the 30 invoices in our review, most departments did not maintain receiving documentation, and one-third did not maintain okay-to-pay authorization  
Fiscal year 2021-2022 to August 31, 2022



30 invoices entered in Munis between July 1, 2021, and August 31, 2022, that span six departments and found that 18 or 60 percent of the invoices in five departments did not have receiving documentation in Munis, nor could the department produce evidence of receipt. Further, seven or 23 percent of the invoices in two departments did not have documented

Source: City Auditor Department staff analysis of Munis’ Tyler Content Manager data and department-provided documentation from fiscal year 2021-2022 to August 31, 2022.

<sup>1</sup> A.R.S. §41-151.12 grants the Arizona State Library, Archives, and Public Records the authority to set records retention periods. Further, A.R.S. §41-151.14 requires cities to comply with the rules, standards, and procedures adopted by the Arizona State Library, Archives, and Public Records. Arizona State Library, Archives, and Public Records Schedule Number GS-1017 Rev. 1, Record Series Number 10057 directs public bodies to retain financial records, including purchase orders, receiving documents, invoices, and receipts for a period of three years.

evidence of the employee authorizing the okay-to-pay before entry in Munis. According to some departments, this was because verification was provided verbally or because it was provided by email that could not be retrieved.

Maintaining evidence for the receipt of goods and/or services is important for several reasons. First, receiving documentation provides evidence that goods and/or services were received. Secondly, receiving documentation can support that an invoice is legitimate and for an actual expense. Lastly, the City has a statutory responsibility to maintain records in accordance with the Arizona State Library, Archives, and Public Records rules, which requires public bodies to retain financial records, including accounts payable receiving documentation for a period of three years. Additionally, documenting that invoices are okay-to-pay before entry in Munis is important because the recipient of goods and/or services may not always be part of the Munis invoice approvals workflow. Further, the recipient's approval substantiates that an invoice is complete and ready for entry in Munis for payment.

Without proper documentation, the City increases its risk of paying for goods and/or services that are never received and for paying fictitious invoices. Additionally, the City increases its risk that it may not be compliant with the State's records retention policies.

## Recommendations

The Finance Department should:

1. Require sufficient supporting documentation, like receiving evidence and documented evidence that invoices are okay-to-pay, with all invoices that are submitted to Finance for payment.

**Management Response:** Management partially concurs with the audit recommendation.

- Recommendation Completion Date: 8/31/2023

Finance will require departments to include evidence that goods and/or services were received if the department receives evidence of receipt. Department authorization for paying invoices is already received when an invoice is processed through Munis workflow.

2. Update its Guidelines to require that departments include sufficient supporting documentation, including documented evidence that goods and/or services were received, and invoices are okay-to-pay, with all invoices that are submitted for payment. Minimally, the Guidelines should include guidance on what documentation is sufficient support for the receipt of goods and/or services and how departments should document the person authorizing the okay-to-pay before entry in Munis.

**Management Response:** Management partially concurs with the audit recommendation.

- Recommendation Completion Date: 8/31/2023

Finance will update Guidelines to require departments to include evidence that goods and/or services were received if the department receives evidence of receipt. Department authorization for paying invoices is already received when an invoice is processed through Munis workflow.

# Appendix A

## Background

As part of normal City operations, the City purchases goods and services from vendors. The money owed to vendors from these purchases is considered accounts payable, and the process for paying these vendors is referred to as the AP process. The City's AP process is decentralized meaning that the Finance Department's AP Division does not control the process from start to finish. Rather, the City's departments, in addition to Finance's AP Division, play integral roles in the AP process.

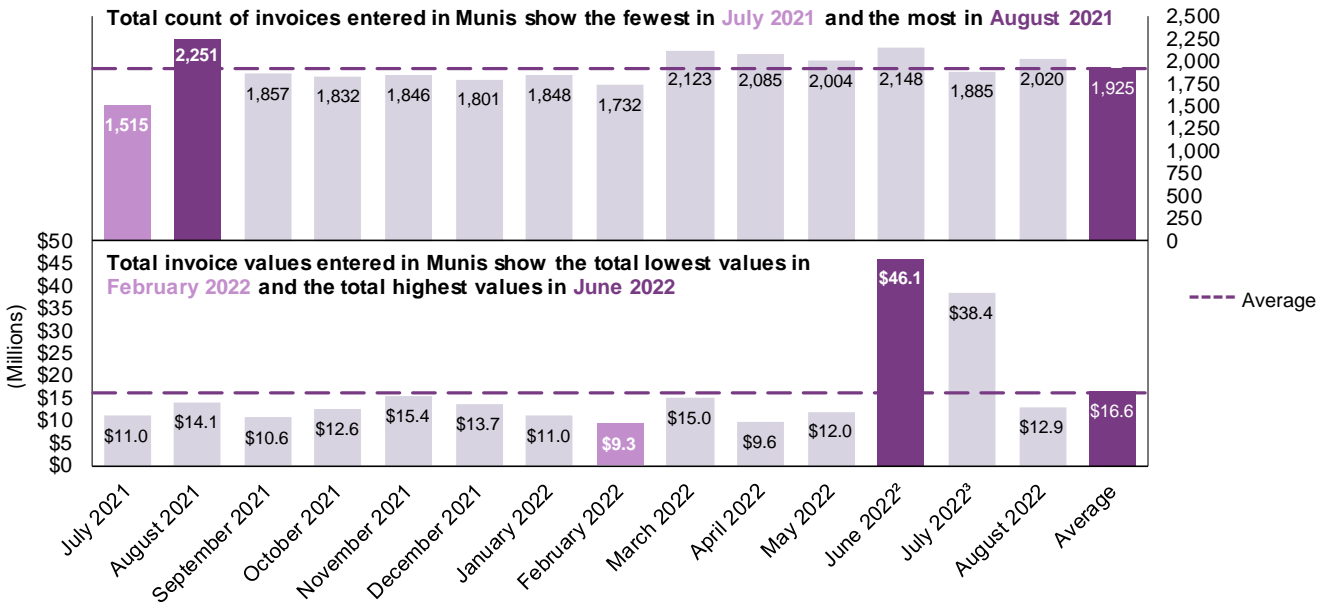
Departments are responsible for entering and approving vendors' invoices in Munis, the City's Enterprise Resource Planning system that manages City functions, including Financials. Finance's Guidelines direct departments to verify the accuracy of invoices and confirm that goods and/or services are received before entry into Munis. This is achieved through Munis workflow procedures. After departments have completed their workflow process, invoices are routed in Munis to Finance's AP Specialists for review and approval and lastly to Finance's Assistant Director for final review and approval.

A well-designed process can reduce the City's risk of errors, fraud, or misuse.

The CAD analyzed invoices entered in Munis from July 1, 2021, to August 31, 2022. Figures 2, 3, 4, and 5 detail spending for invoices entered during this period.

## Figure 2

Monthly invoice values and invoice counts based on invoice entry date<sup>1</sup>  
Fiscal year 2021-2022 to August 31, 2022



<sup>1</sup> Monthly invoice values and counts do not include P-Card activity. See our August 16, 2022, *Continuous Auditing: Citywide Procurement Cards* audit report for additional information about the City's P-Cards.

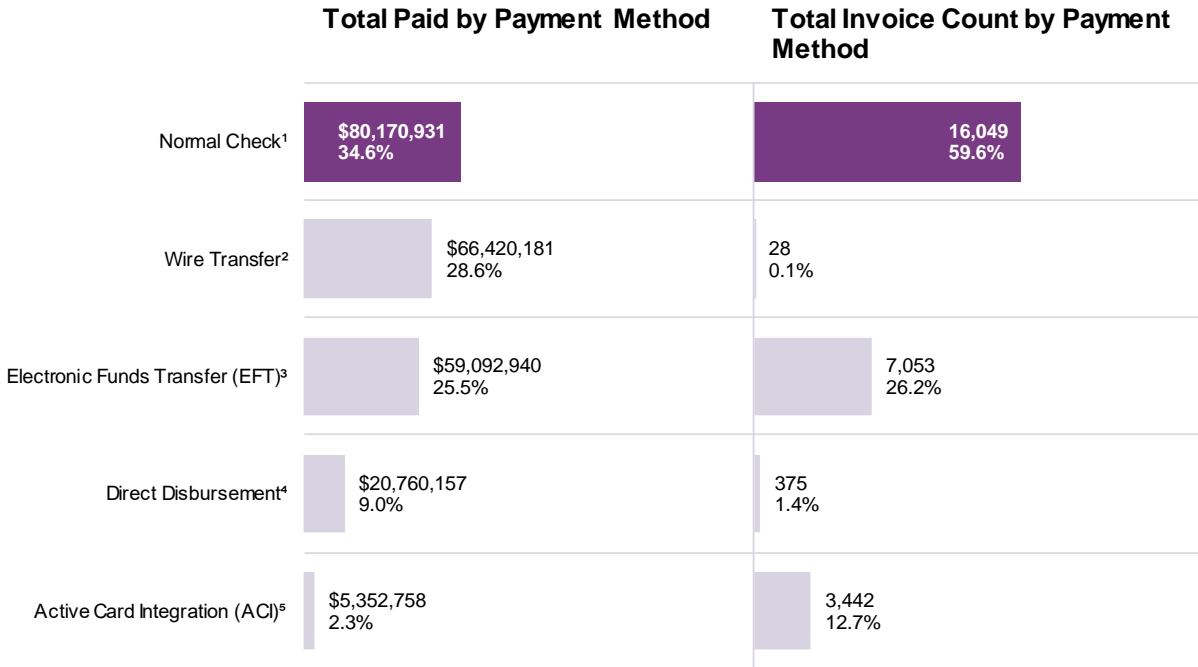
<sup>2</sup> June 2022 total invoice values include a \$30 million invoice for the City's local government investment pool.

<sup>3</sup> Four invoices account for \$26.4 million of total invoice values in July 2022. These include a \$12.5 debt service invoice, two invoices for the Public Safety Personnel Retirement System totaling \$10.6 million, and a \$3.3 million invoice for a property purchase.

Source: City Auditor Department staff analysis of Munis *Invoice Tracking Report* data from fiscal year 2021-2022 to August 31, 2022.

### Figure 3

Normal checks were the most frequent payment method, both in total paid and in total invoice count based on invoice entry date  
Fiscal year 2021-2022 to August 31, 2022

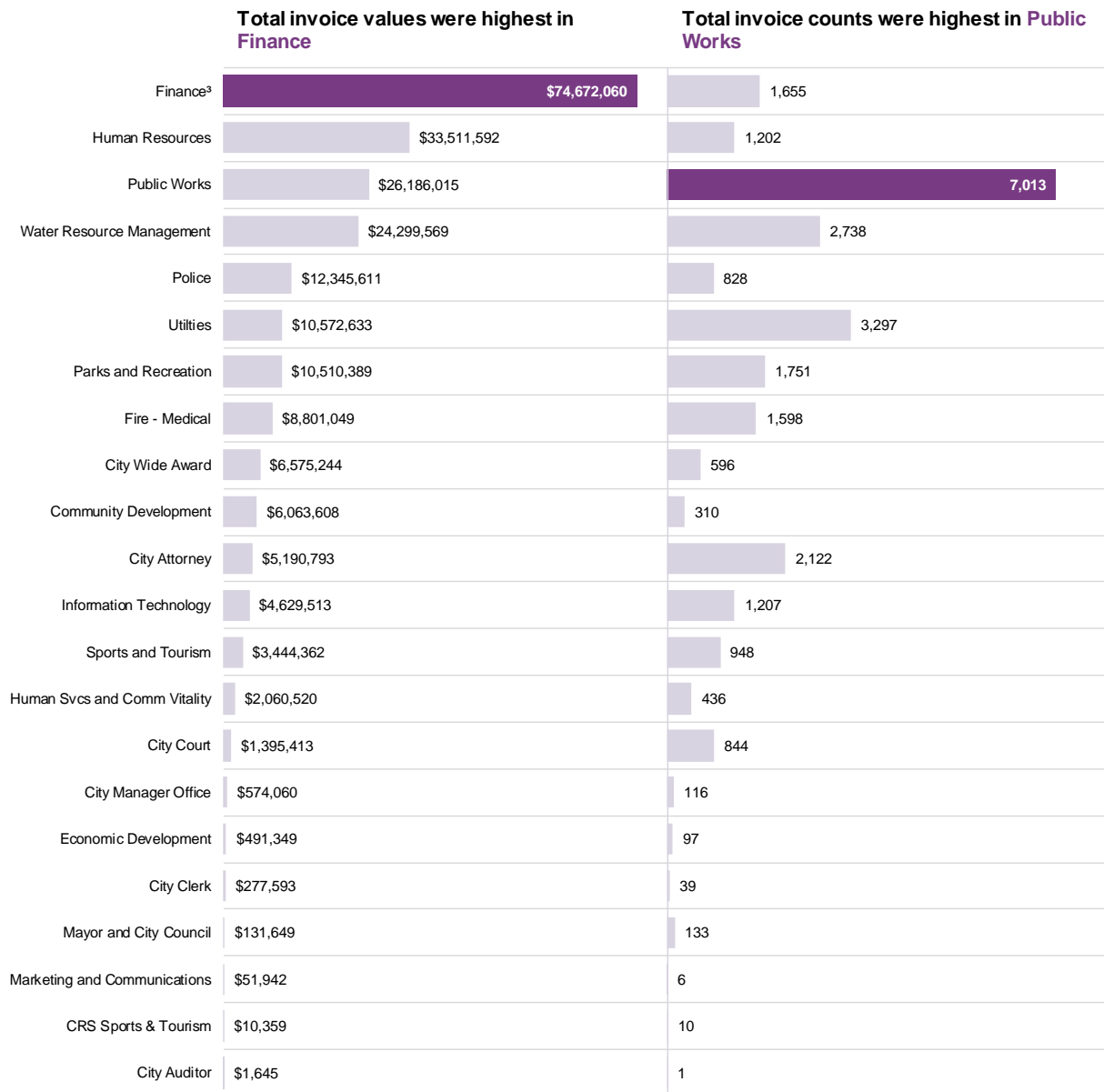


- <sup>1</sup> Normal checks are tangible, paper checks that indicate the amount of money to be withdrawn from a designated bank account.
- <sup>2</sup> Wire transfers are a form of electronic payment that sends money from one bank account to another.
- <sup>3</sup> EFTs are electronic interbank transactions in which money is moved from one account to another.
- <sup>4</sup> Direct disbursements are electronic check payments made from a City bank account.
- <sup>5</sup> ACI is an electronic payment method in which a virtual credit card is issued to the payee.

Source: City Auditor Department staff analysis of Munis *Invoice Tracking Report* data from fiscal year 2021-2022 to August 31, 2022.

## Figure 4

Department total invoice values and invoice counts based on invoice entry date<sup>1</sup>  
Fiscal year 2021-2022 to August 31, 2022



<sup>1</sup> Department invoice values and counts do not include P-Card activity. See our August 16, 2022, *Continuous Auditing: Citywide Procurement Cards* audit report for additional information about the City's P-Cards.

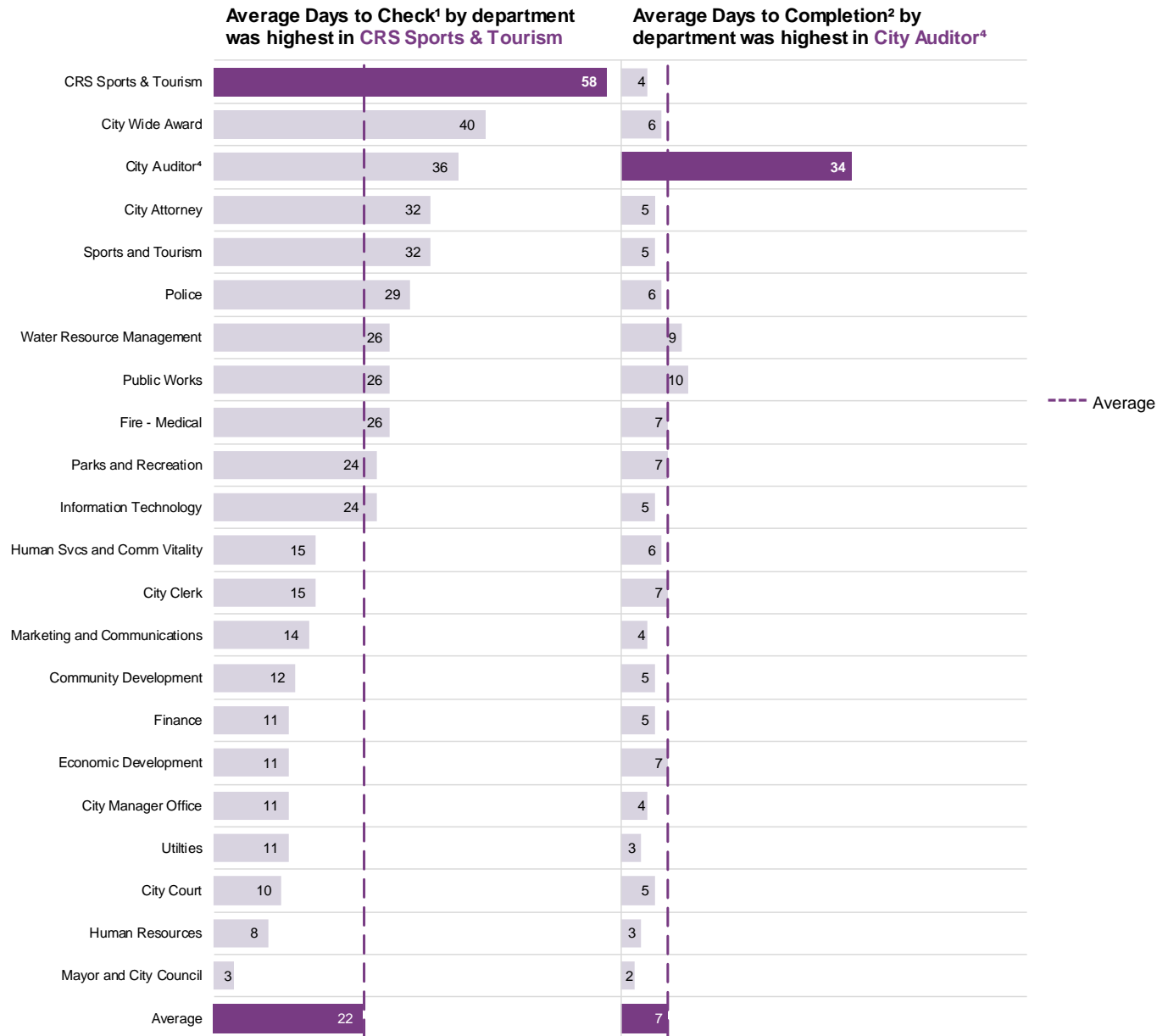
<sup>2</sup> No invoice activity was reported for the following departments: General Operations, Payments Received by IVRUSER, Revenue General Billing, Utility Billing WO Department. Therefore, these departments were excluded from Figure 4.

<sup>3</sup> Finance's *Total invoice values by department* figure includes two invoices totaling \$42.5 million for debt service and the City's local government investment pool.

Source: City Auditor Department staff analysis of Munis *Invoice Tracking Report* data from fiscal year 2021-2022 to August 31, 2022.

## Figure 5

Average Days to Check<sup>1</sup> and Days to Completion<sup>2</sup> by department  
Fiscal year 2021-2022 to August 31, 2022



<sup>1</sup> Days to Check is the difference between the check date and invoice date.

<sup>2</sup> Days to Completion is the difference between the check date and invoice entry date.

<sup>3</sup> Department invoice payments and counts do not include P-Card activity. See our August 16, 2022, *Continuous Auditing: Citywide Procurement Cards* audit report for additional information about the City's P-Cards.

<sup>4</sup> City Auditor Average Days to Check and Average Days to Completion values are based on one invoice as seen in Figure 4.

<sup>5</sup> No invoice activity was reported for the following departments: General Operations, Payments Received by IVRUSER, Revenue General Billing, Utility Billing WO Department. Therefore, these departments were excluded from Figure 5.

Source: City Auditor Department staff analysis of Munis *Invoice Tracking Report* data from fiscal year 2021-2022 to August 31, 2022.

## Objectives, Scope, and Methodology

We conducted a performance audit of AP pursuant to [Ordinance No. 2016-26](#), which grants the City's internal audit program authority to conduct City internal audits. This audit focused on AP from July 1, 2021, to August 31, 2022, and evaluated whether procedures and processes were compliant with City policies, procedures, municipal code, and laws and regulations.

Specifically, the CAD evaluated whether:

- City departments' access was appropriately restricted within the AP module.
- Finance paid for goods and/or services without evidence that the goods and/or services were received by the City.
- City departments appropriately segregated duties across the accounts payable process.
- Finance overpaid<sup>2</sup> its vendors.
- Finance paid its vendors timely.
- Finance maintained sufficient documentation in accordance with its Guidelines and the Arizona State Library, Archives, and Public Records rules.

The CAD used various methods to review the specific objectives of this audit. These methods included:

- Reviewing applicable City policies, municipal code, laws, and regulations.
- Sampling, judgmentally, six City departments based on factors like total invoice payments, invoice counts, average payment amount, and department size.
- Interviewing Finance staff and staff from six sampled departments involved in the AP process.
- Interviewing Information Technology (IT) staff regarding AP access.
- Reviewing an October 2022 system-generated *Invoice Tracking Report*.
- Reviewing November 2022 access reports and a January 2023 access report.
- Reviewing detailed accounts payable documentation for 30 expenditures entered in Munis between July 1, 2021, and August 31, 2022.
- Reviewing internal controls related to accounts payable.
- Analyzing AP data.
- Using CaseWare IDEA data analytical software.

---

<sup>2</sup> In the context of this audit, an overpayment is a payment of more than what is due. Therefore, we considered duplicate payments, payments more than the invoice amount, and discounts not maximized as overpayments.

# Appendix B

## Data Reliability

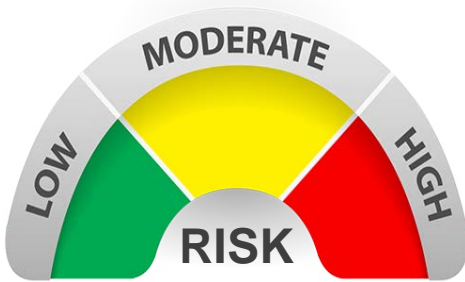
The data utilized for the work performed was either obtained from Munis, the City's financial system of record, or directly from Finance. Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Annual Comprehensive Financial Report (ACFR) performed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

The CAD selected audit samples to provide sufficient evidence to support our findings and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

The CAD 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 C

## 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, the CAD verified the audit objectives and related controls identified address the five internal control components of the COSO framework. Some control weaknesses were identified and are included in the Detailed Observations section of this report that rose to the level of a Citywide internal control deficiency.

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

## Acknowledgments

The CAD appreciates the time City staff contributed to this review. The City Auditor would like to take this opportunity to thank the City departments and individuals involved in the Accounts Payable audit for their considerable cooperation and assistance, including the:

- City Attorney Department,
- Finance Department,
- Fire – Medical Department,
- Human Services and Community Vitality Department,
- Information Technology Department,
- Parks and Recreation Department,
- Police Department, and
- Public Works Department.

## Surprise City Auditor Department

- **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 the City Auditor Department: <https://surpriseaz.gov/166/City-Auditor>.



**CITY OF SURPRISE  
Audit Committee**

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Council Meeting Date: June 22, 2023  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

---

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

---

**Agenda Wording:**

Presentation, discussion, and action pertaining to the Management of Policies and Procedures Audit Report.

---

**Motion:**

I move to approve and distribute the Management of Policies and Procedures Audit Report.

---

**Background:**

This item has been placed on the agenda to discuss the results of work performed as part of the FY2022-2023 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 the 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 city 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 city 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.

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**Financial Impact:**

This item relates to work performed as part of the FY2022-2023 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. Policies and Procedures-Final
-



**S U R P R I S E**

A R I Z O N A

**Management of Policies  
and Procedures  
Audit Report**

March 23, 2023

# Table of Contents

|  |       |
|--|-------|
| <a href="#">Executive Summary</a>  | 3     |
| <a href="#">Observations Summary and Risk Rating</a>   | 3     |
| <a href="#">Detailed Observations – Moderate-Risk</a>  | 4-13  |
| <a href="#">1 – Mandatory training should be completed by the employee within 60 days in accordance with the EPM.</a>  | 4-6   |
| <a href="#">2 – Mandatory training should be assigned to and completed by full/part-time regular employees.</a>  | 7- 8  |
| <a href="#">3 – Departmental policies and procedures related to personnel should be reviewed by HR in accordance with the EPM.</a>                                   | 9     |
| <a href="#">Detailed Observations – Low-Risk</a>   | 9-12  |
| <a href="#">4 – Security Awareness Training should be assigned to employees annually in accordance with the Information System Security General Controls Policy.</a> | 10    |
| <a href="#">5 – Notice of the EPM update and amendments should be provided to employees within 30 days of the effective date, in accordance with the EPM.</a>        | 11    |
| <a href="#">6 – Policies, procedures, and training applied citywide should be reviewed regularly for continued relevance.</a>  | 12-13 |
| <a href="#">Appendix A: Background, Objectives, Scope, and Methodology</a>   | 14-15 |
| <a href="#">Appendix B: Data Reliability and Risk Rating</a>   | 16    |
| <a href="#">Appendix C: Standards and Acknowledgments</a>  | 17    |
| <a href="#">Appendix D: Employee Survey Results</a>  | 18-21 |

## Executive Summary

An audit of the Management of Policies and Procedures was performed as part of the City Auditor Department's (CAD) FY2022-2023 Annual Audit Plan. The purpose of the audit was to determine the status and effectiveness of citywide documented policies and procedures and determine if they are robust enough to achieve City and departmental objectives.

Our review found that policies and procedures are decentralized in the City, including those applied citywide, with the Employee Policy Manual (EPM) being the primary policies and procedures for the City. Our review also found that mandatory training on policies and procedures is either not being completed within the 60-day requirement per the EPM or completed at all by employees. We also identified a small number of employees that were not assigned the required training on citywide policies and procedures. Lastly, we identified policies, procedures, and training material that contained inconsistent or outdated information.

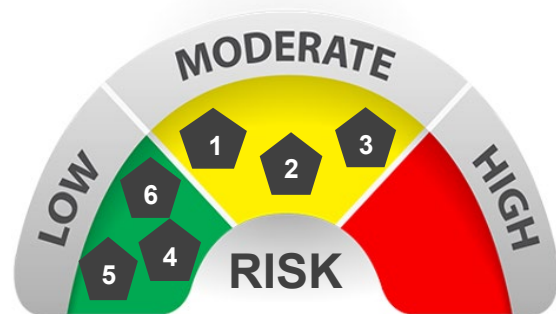
As part of the audit, we conducted an employee survey sent to 102 employees with 44 respondents. The overall results showed that the respondents were aware of and could identify where to locate the EPM. The results also showed that 18 respondents were unaware of the Surprise Ethics Handbook, also referred to as the Surprise Ethic and Values Guide 2019. Refer to Appendix D for the Survey Results.

Refer to Appendix A for more information about the Management of Policies and Procedures.

## Observations Summary and 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.

1. Mandatory training should be completed by the employee within 60 days in accordance with the EPM.
2. Mandatory training should be assigned to and completed by full/part-time regular employees.
3. Departmental policies and procedures related to personnel should be reviewed by Human Resources (HR) in accordance with the EPM.
4. Security Awareness Training should be assigned to employees annually in accordance with the Information System Security General Controls Policy.
5. Notice of the EPM update and amendments should be provided to employees within 30 days of the effective date, in accordance with the EPM.
6. Policies, procedures, and training applied citywide should be reviewed regularly for continued relevance.



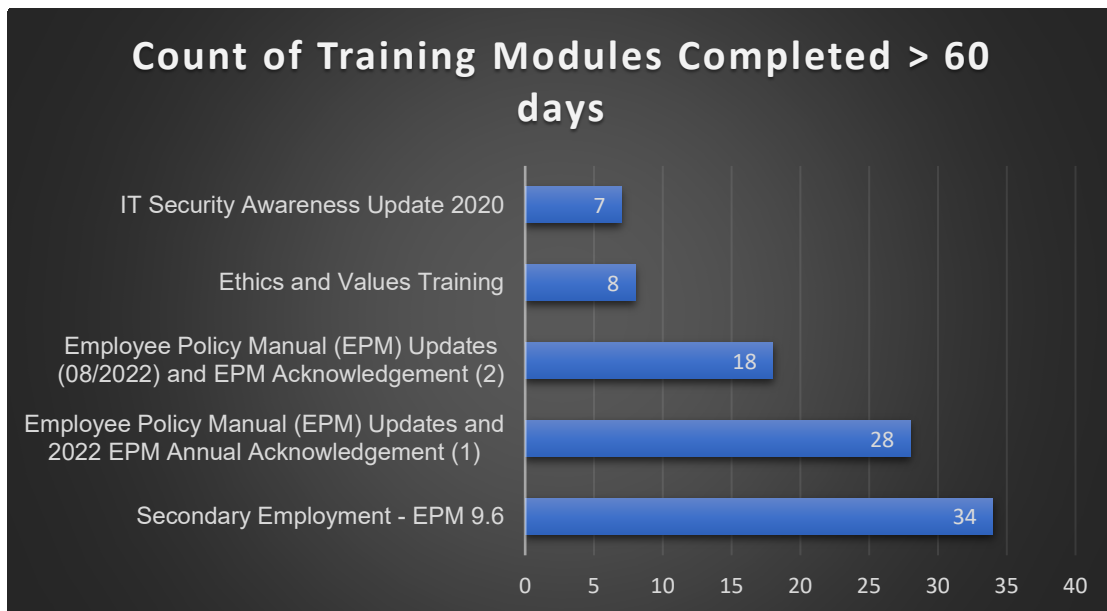
## Detailed Observations – Moderate-Risk

### 1 – Mandatory training should be completed by the employee within 60 days in accordance with the EPM.

EPM 3.9 Employee Training & Development, A. Policy, h. states, 'Employees who do not complete City required training as assigned within 60 days, may be subject to action pursuant to EPM 10.1 – Corrective Action' (effective February 2022).

Of 960 employees assigned training in TargetSolutions (see Appendix B) in 2022, 263 (27%) did not complete the mandatory assigned training within the 60-day timeframe in accordance with the EPM.

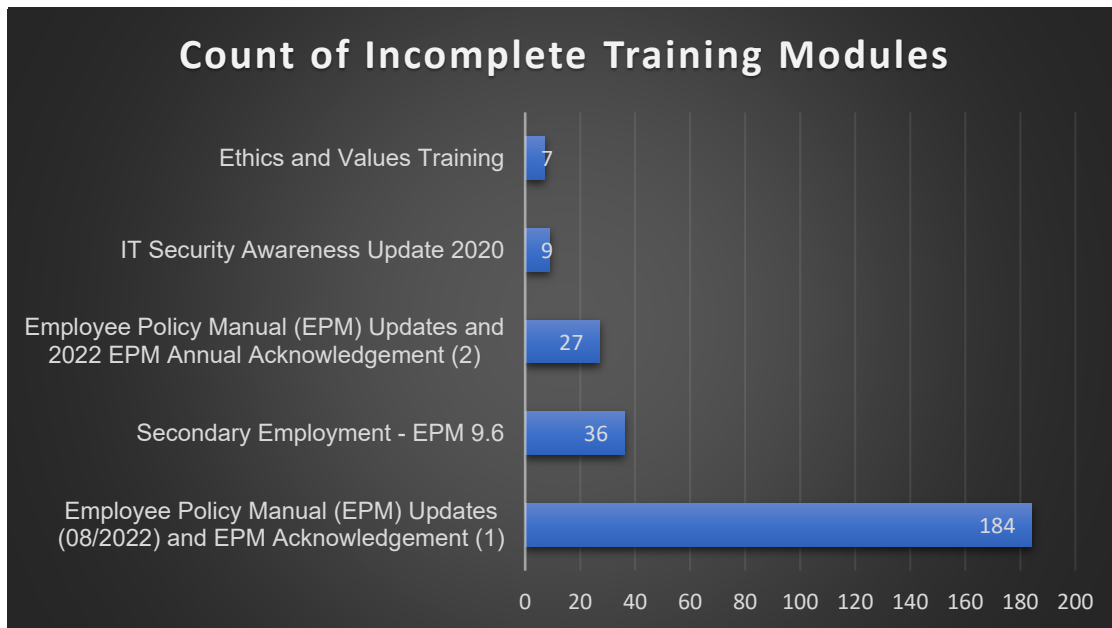
Fifty-three employees exceeded the 60-day timeframe for completing their assigned mandatory training (95 modules) in TargetSolutions. The timeframe for completion ranged from 61 to 179 days.



(1) The Employee Policy Manual (EPM) Updates (08/2022) and (2) EPM Acknowledgment contained the updates from June 13, 2022, amendment, while the Employee Policy Manual (EPM) Updates and 2022 EPM Annual Acknowledgment contained February 17, 2022, amendments.

- Nine employees had three mandatory training modules completed > 60 days.
- 24 employees had two mandatory training modules completed > 60 days.
- 20 employees had one mandatory training module completed > 60 days.

Two hundred and ten active employees had not completed the assigned mandatory training (263 modules) as of 12/9/22. Nine employees (31 modules) were within the 60-day limit but had exceeded the due date assigned in TargetSolutions. Per HR, this data may include employees on an approved leave of absence as they are still assigned training while on leave.



(1) The Employee Policy Manual (EPM) Updates (08/2022) and (2) EPM Acknowledgment contained the updates from June 13, 2022, amendment, while the Employee Policy Manual (EPM) Updates and 2022 EPM Annual Acknowledgment contained February 17, 2022, amendments.

Prior to the end of 2022, HR was not tracking the completion of the training resulting in no enforcement of EPM 3.9, A. Policy, h.

### Risk

Employees will not be aware and may not comply with current policies and procedures, which can lead to penalties, lawsuits, or other legal consequences.

### Recommendation

HR should:

1. Enforce the policy as stated in EPM 3.9 Employee Training & Development, A. Policy, h. holding employees accountable if the training is not completed within 60 days.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/28/2023

This recommendation was implemented immediately.

The HR Administration team began running reports every other week to track incomplete and overdue Target Solutions assignments. These are sent to each department for follow-up. Additional follow-up occurs every two weeks, and if assignments remain incomplete, applicable department directors are notified.

2. Work with the active employees to ensure the employees complete any outstanding mandatory training.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/28/2023

This recommendation was implemented immediately.

The HR Administration team began running reports every other week to track incomplete and overdue Target Solutions assignments.

## Detailed Observations – Moderate-Risk, continued

### 2 – Mandatory training should be assigned to and completed by full/part-time regular employees.

Per EPM 3.2, New Employee Orientation and EPM 3.8, Employee Training & Development, HR oversees a comprehensive employee training program including Annual Employee Compliance Training on topics, including but not limited to those listed in the TargetSolutions training schedule below. Mandatory training is assigned at hire and on an annual basis or as substantive changes are made to active full/part-time regular employees.

We judgmentally selected four assigned mandatory training modules for review: Rules of Conduct (Dec. 22, EPM Update), IT Security Awareness Training, Secondary Employment, and Ethics and Values Training.

|   | At Hire | Annual/Substantive Updates |
|---|---------|----------------------------|
| Active Threats and Workplace Violence       | x       |                            |
| Disability Awareness Training               | x       |                            |
| EPM Training                                | x       | x                          |
| Ethics and Values Training                  | x       |                            |
| IT Security Awareness Training              | x       | x                          |
| NIMS 100                                    | x       |                            |
| NIMS 700                                    | x       |                            |
| Safe Driving Awareness                      | x       |                            |
| Secondary Employment                        | x       | x                          |
| Harassment Prevention for Employees         | x       | x                          |
| Harassment Prevention for Managers          | x       | x                          |
| Bloodborne Pathogens                        | x       |                            |
| Supervisor 101 (3 courses)                  | x       |                            |
| Bullying Awareness (Parks Maintenance Only) | x       |                            |
| HIPAA General and Supplemental (HR/IT/FIN)  | x       |                            |
| Fingerprint Training (HR)                   | x       |                            |
| Craig Tiger (Public Safety and HR)          | x       |                            |
| PCI (FIN/IT)                                | x       |                            |
| Cash Handling (FIN/IT)                      | x       | <sup>1</sup>               |

<sup>1</sup> Blue Chart - Provided by the HR Department – Target Solutions Training Schedule

Our assessment found that the training modules had not been assigned to all required employees, resulting in 19 employees not being assigned training.

| Required Training Module                             | # of Employees who did not receive the required training |
|--|--|
| IT Security Awareness 2022                           | 1  |
| Rules of Conduct (Dec. 22, EPM Update and Amendment) | 2  |
| Secondary Employment                                 | 8  |
| Ethics and Values Guide                              | 8  |
| <b>Total</b>   | <b>19</b>  |

Due to employee misclassification and training assignment errors, the mandatory training was not assigned to employees in TargetSolutions.

### Risk

Employees that do not receive training on policies and procedures may not be aware of the expectations and guidelines, resulting in non-compliance with policies and procedures, which can lead to penalties, lawsuits, or other legal consequences.

### Recommendation

HR should:

1. Assign and ensure completion of the mandatory training for the employees identified during testing to be missing.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/28/2023  
Upon discovery of the unassigned training, the HR Administration team immediately assigned the training to the applicable employees in Target Solutions.

2. Conduct and document a quarterly self-audit ensuring employees are classified correctly and the appropriate mandatory training has been assigned to required employees in TargetSolutions.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 12/29/2023  
The HR Administration team will implement a quarterly self-audit program to ensure all employees are classified correctly and that all mandatory training has been assigned as required in Target Solutions. The HR Analyst will perform the audit and report the results to the HR Manager upon completion. Audit results will be stored in HR Administration>Training within Laserfiche.

## Detailed Observations – Moderate-Risk, continued

### 3 – Departmental policies and procedures related to personnel should be reviewed by HR in accordance with the EPM.

Per the EPM 1.3, Procedures, 4, department-specific policies and procedures related to personnel must be submitted by the department director to the HR Director for review. Department-specific policies should include the manner of publication to the employee and confirmation of receipt no less than annually, which shall be forwarded to HR and included in the employee's personnel file.

Per an inquiry with HR management, there is no defined process to ensure departments are reaching out to HR about personnel policy/procedure review.

HR management indicated that they rely on the language in the EPM 1.1 Applicability & Interpretation: 'These policies supersede all previous written and unwritten personnel policies and guidelines and past personnel practices of the City and also supersede any current department policy or procedure inconsistent with those set forth herein.' Therefore, HR does not actively seek out or do outreach to all departments regarding personnel policies and procedures.

#### Risk

Departmental policies and procedures that are not congruent with Citywide policies and procedures can result in inefficiencies, lawsuits, and organizational objectives not being reached.

#### Recommendation

HR should:

1. Consult with the City Attorney on EPM 1.1 on if their interpretation of the language would be sufficient to supersede the requirement for them to review policies and procedures per EPM 1.3.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/28/2023  
The language has been discussed with the City Attorney.

2. If departments should be taking this action, HR should email Department Directors annually, reminding them of the EPM requirements and asking them to provide any policies/procedures and supporting documentation confirming employee acknowledgment.

**Management Response:** Management does not concur with the audit recommendation.

- Recommendation Completion Date: N/A  
The language in EPM 1.3.B.4 gives adequate guidance to department directors to send any department-specific policies related to personnel to HR for review prior to implementation. HR will look at updating the EPM to match the current practice of the department being responsible for tracking and managing employee receipt and acknowledgment of department-specific policies and procedures at the department level.

## Detailed Observations – Low-Risk

### 4 – Security Awareness training should be assigned to employees annually in accordance with the Information Systems Security General Controls Policy.

Per the Information System Security General Controls Policy (V 3.1), 2.5 HR Department, • 3-verify that employees attend security awareness training upon hire and at least annually.

IT Security Awareness training was not given annually in TargetSolutions. The timing from 8/22/2018 to 6/17/2020 training was 1.9 years, and the timing from 6/17/2020 to 12/13/2022 training was 2.5 years.

During interviews with the HR and the IT Security manager, the reason that training was not assigned annually was due to not having a formal process or set schedule for how often the training is assigned to employees.

#### Risk

Employees that are not trained regularly on the acceptable use of computer equipment and city resources can expose the city to risks, including virus attacks, compromise of network systems and services, non-compliance fines, and legal issues.

#### Recommendation

HR should:

1. Work with the IT Security manager to ensure the IT Security Awareness training is given annually in accordance with the Information System Security General Controls Policy.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/28/2023

IT Security Awareness training was added to the annual training schedule at the time this deficiency was discovered and pushed out to full-time regular and part-time regular employees on December 13, 2022.

2. Work with the IT Security manager to create a formal annual training schedule that includes the timing of when the Security Awareness Training needs to be assigned to employees to meet the annual training requirement.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/28/2023

IT Security Awareness training was added to the annual training schedule at the time this deficiency was discovered.

## Detailed Observations – Low-Risk, continued

### 5 – Notice of the EPM updates and amendments should be provided to employees within 30 days of the effective date in accordance with the EPM.

Per EPM 1.4 Amendment, B. Procedure, 2. Notice/Training, every employee of the City shall receive notice of any amendment to this manual [EPM] within 30 days of the effective date and shall be provided training on any substantive changes within 90 days of the effective date.

For 1 of 3 (33%) EPM policy amendments issued in 2022, employees were not notified within 30 days of the effective date.

In the February 2022 policy update, the amendments to EPM 3.1 & 5.4 within the EPM Update notification indicated an effective date of 10/4/2021, exceeding the training requirement of within 90 days of the effective date and notification within 30 days, as the City Manager did not approve it until 136 days after the effective date.

The policies' effective date is before the City Manager's approval, delaying the publication to the EPM, employee notification, and required training.

#### Risk

Failure to inform employees about policy changes can lead to confusion, inefficiencies, and potential litigation.

#### Recommendation

HR should:

1. Ensure notice and training of EPM updates and amendments are provided to employees in accordance with EPM 1.4.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 12/29/2023

When EPM Updates and amendments occur, generally, notification and training are provided simultaneously. To increase the efficiency and effectiveness of communication of these changes to employees, the Human Resources department will update the policy to reflect a 60-day requirement for both notification and training of substantive policy updates.

2. Have the policy be effective when the City Manager approves the change.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/28/2023

This change was put into place by the Human Resources team at the time the deficiency was identified. Moving forward, policy changes will be effective on the date of the City Manager's signature.

## Detailed Observations – Low-Risk, continued

### 6 – Policies, procedures, and training applied citywide should be reviewed regularly for continued relevance.

Policies, procedures, and corresponding training should be reviewed for continued relevance and effectiveness and updated, as needed, based on updates to systems and structures within the city.

Our review found that policies and procedures are not always updated to reflect up-to-date, consistent information, including the information posted on InsideSurprise and in the training material.

- ⊖ The conflict of interest message and notification process is inconsistent and unclear across the policies reviewed during the audit that contained a conflict of interest section. The conflict of interest examples [located on the Finance Docs & Forms page on InsideSurprise] are not linked or provided in either policy where conflict of interest is mentioned (Ethics, EPM 9.2). Conflict of interest is only required to be acknowledged by employees through the annual EPM acknowledgment, Ethic and Values Guide acknowledgment, training upon hire, or during the procurement process.
- ⊖ The Ethic and Values Guide does not define the city’s core values. The guide is inconsistent with and does not reflect EPM updates and amendments. Key components that should be included in the guide are missing, such as a commitment to investigate and take action on reported concerns, a policy on data security, a policy on compliance with laws and regulations, and consequences for non-compliance. The guide is only acknowledged by employees upon hire.
- ⊖ The IT Policies and Forms page [InsideSurprise] is outdated, and the policies and procedures do not align with changes made and documentation currently being utilized for employee acknowledgment. For example, 8.5 Document management was effective 6/22, but training material did not reflect the change until 12/22.

With the decentralization of policies and procedures, including those applied citywide, there is not a defined or uniform process for creating, updating (including policy updates, posting on department sites on InsideSurprise, and training modules), and referencing with other policies and procedures.

#### Risk

Policies, procedures, and training not updated to reflect current city practices can cause employee confusion, inefficiencies, lawsuits, and organizational objectives not being reached.

#### Recommendation

HR should:

1. Update the conflict of interest notification process to be clearly defined and consistent across policies and procedures where conflict of interest is mentioned by working with Finance. Conflict of interest should be acknowledged by employees annually, similarly to how Secondary Employment is acknowledged by employees.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 3/31/2024

The Human Resources Department will work with the Finance Department to ensure consistent policies and procedures as it pertains to Conflict of Interest. Additionally, the Conflict of Interest policy will be assigned to all employees on an annual basis for review and disclosure along with the Secondary Employment policy. The next time these will go out is in March of 2024.

2. Update the Ethic and Values Guide to clearly define the city's core values, as shown in the Values Statement. It should also be updated to be consistent with and reflect EPM updates and amendments and include a commitment to investigate and take action on reported concerns, a policy on data security, a policy on compliance with laws and regulations, and consequences for non-compliance. The Ethic and Values Guide should be acknowledged by employees annually, similarly to how the EPM is acknowledged by employees.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 12/29/2023

Concurs with Conditions – The City of Surprise Human Resources Department will work with City Leadership to abolish the Ethics and Values Guide and instead incorporate an Ethics and Values statement into the beginning of the EPM. Policies specific to ethics and values will be designated in the EPM as well. This creates a less burdensome process with one document to maintain instead of two, plus it is more convenient for employees only to have one document to reference. This also prevents the risk that policies in different sources might contradict one another.

3. Establish a clear communication channel through annual meetings/emails with appropriate department directors to ensure everyone is informed of changes or updates to policies and procedures applied citywide. The annual meetings should be documented.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 12/29/2023

Annually, prior to the launching of the required training for conflict of interest and IT security awareness, the Human Resources Director will confirm with the IT Director and the Finance Director that all policies are current and up to date.

Information Technology (IT) should:

1. Update the IT Policies and Forms page to reflect current policies and procedures.

**Management Response:** Management concurs with the audit recommendation.

- Recommendation Completion Date: 4/21/2023

The policy has been updated and posted effective 4/21/2023

# Appendix A

## Background

The City Manager is responsible for implementing, communicating, and enforcing all citywide employee policies and creating, implementing, and communicating procedures to assist employees with complying with them. (EPM Pg. 9, 1.3 Implementation & Disseminations, #3, SMC Sec. 3.3). The EPM is the main citywide policy managed by HR. EPM updates and amendments are made by HR, but the City Manager has the final approval in all aspects of the EPM.

Other policies and procedures are decentralized, including those applied citywide. For example, the Finance and IT Departments create and manage policies and procedures that are applied citywide. Unique department policies and procedures that are more restrictive than those in the EPM due to the department's operational needs are authorized. Personnel-related policies and procedures are subject to the review and approval of the HR Director. (EPM Pg. 9, 1.3 Implementation & Disseminations, #3, SMC Sec. 3.3)

Employee training on policies and procedures applied citywide is provided through a few avenues, depending on the employee's status (temporary vs. regular). During onboarding, new employees are made aware of and presented with an acknowledgment form titled Acknowledgment of Receipt EPM, which provides them with the public web address where the EPM can be found. They are also given the Electronic Media User Agreement form that details IT security rules, an excerpt from and summarizes the Information System Security General Control policy and highlights key points for employees. This form is provided a second time when the new hire is assigned Security Awareness Training in TargetSolutions. Hard copies of policies and procedures, including the EPM, are not provided during onboarding. Employees are expected to access policies and procedures via InsideSurprise, the City's intranet site. Full/part-time regular employees receive training in TargetSolutions, and while there may be exceptions to that rule, it includes but is not limited to annual EPM acknowledgment, EPM updates and amendments, Ethics and Values, IT Security Awareness Training, and Secondary Employment.

Employees are responsible for knowing, understanding, complying with, and adhering to policies that relate to their position or employment at the City.

## Objectives, Scope, and Methodology

We conducted a performance audit of the Management of Policies and Procedures pursuant to [Ordinance No. 2016-26](#), which grants the City's internal audit program authority to conduct City internal audits. This audit focused on policies and procedures applied citywide, including EPM updates and amendments, sections 1.3, 1.4, 3.9, 9.1, 9.2, 9.6, the Ethic and Values Handbook, and IT security policies that employees are trained on, and expected to know and adhere to during their employment with the City.

## Audit Objectives

- Determine if the process of training employees on the EPM, IT Security Awareness, Secondary Employment, and Ethic and Values Guide is efficient and effective.
- Determine if the approval, update, and notification process for the EPM is efficient and effective.
- Determine if employees are sufficiently knowledgeable on a judgmental sample of citywide policies and procedures.
- Evaluate a judgmental sample of policies and procedures applied citywide for organization, clarity, up-to-date information, message consistency, and notification to employees.
- Determine if employees are trained, and documentation is maintained regarding employees' acknowledgment to comply with a judgmental sample of policies and procedures applied citywide.

## Methodology

The CAD used various methods to review the specific objectives of this audit. These methods included:

- Interviewed HR, Finance, and IT personnel about citywide policies, procedures, and training.
- Requested documentation related to EPM updates and amendments and notifications made in 2022.
- Surveyed a judgmental sample of 102 employees, with 44 respondents on policy knowledge.
- Reviewed a judgmental sample of three policies and procedures in effect and applied citywide.
- Requested and analyzed training information from TargetSolutions for four mandatory training modules.
- Requested New Employee Orientation documentation for a random sample of 30 employees to support the completion of training requirements.

# Appendix B

## Data Reliability

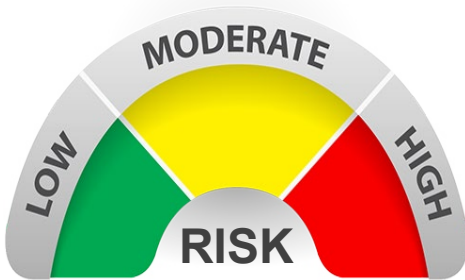
The data utilized for the work performed was obtained from Munis, the City’s financial system of record, and TargetSolutions, the training system utilized by HR to deliver online training. Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Annual Comprehensive Financial Report (ACFR) performed by the City’s external auditor.

We assessed the reliability of TargetSolutions data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing personnel knowledgeable about the data. We determined that the data was sufficiently reliable for the purposes of this report.

The City Auditor Department determined that 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 C

### 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed insignificant to the audit objectives that warranted the attention of those charged with governance were delivered in a separate memo.

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.

### Acknowledgments

The CAD appreciates the time City staff contributed to this review. The City Auditor would like to take this opportunity to thank all City departments and individuals involved in the Management of Policies and Procedures audit for their considerable cooperation and assistance.

We received input and assistance from the following:

- HR Department
- Finance Department
- IT Security Division
- Public Works Department
- Police Department
- Marketing and Communications Department

### Surprise City Auditor Department

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

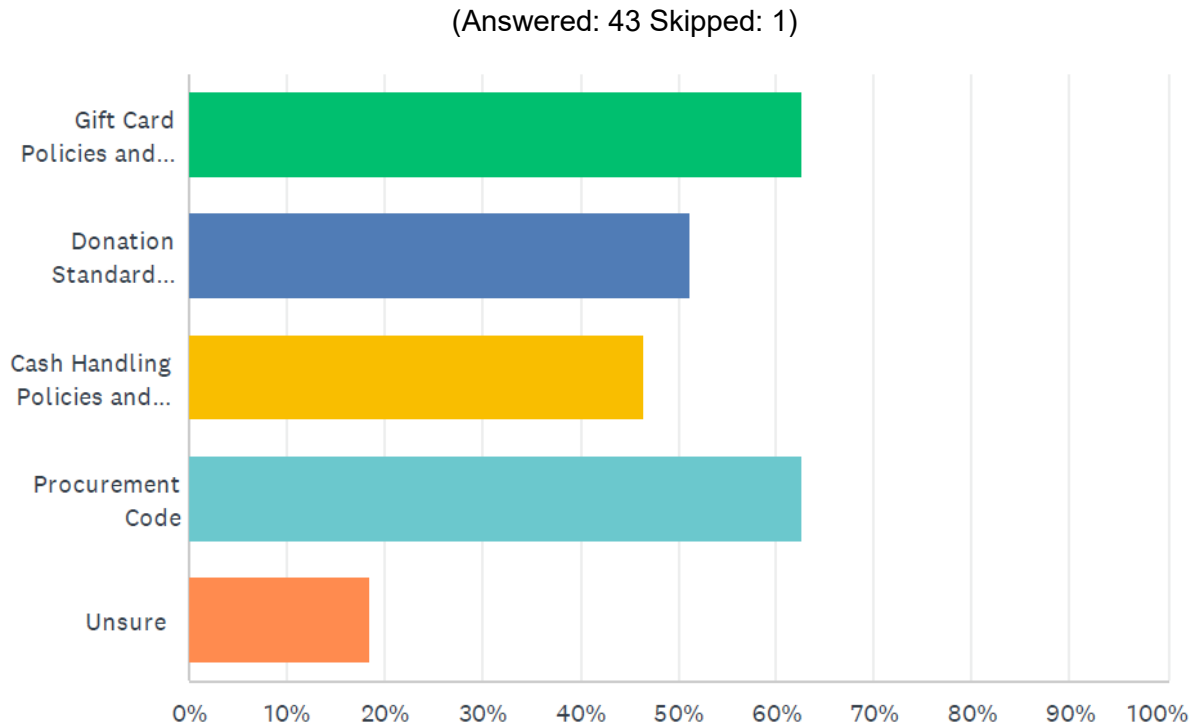
**Mission**—To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

For more information or to contact the City Auditor Department: <https://surpriseaz.gov/166/City-Auditor>

## Appendix D

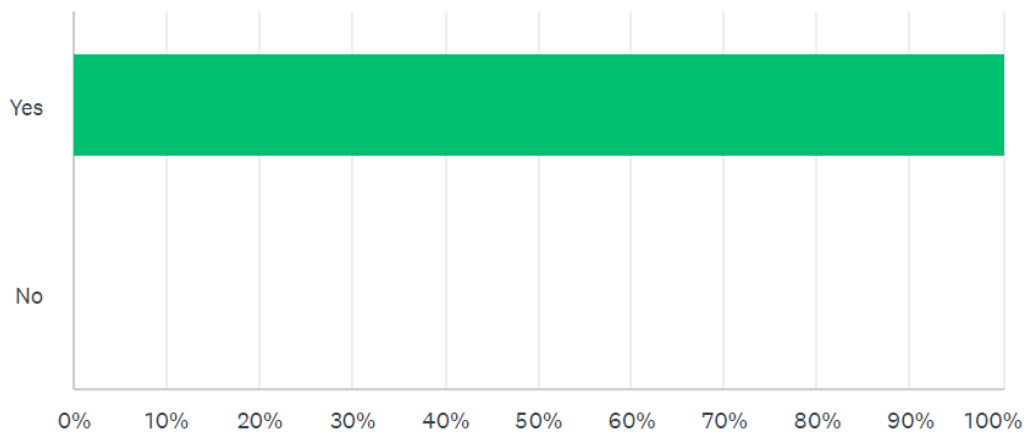
The survey was sent to a judgmental sample of 102 (temporary and regular) employees spanning 14 departments (excluding appointed and elected officials and volunteers). The survey was open from January 10 through January 20, 2023. We had 44 (43%) respondents. The results of the survey are below.

(Q1) Which policies and procedures must you adhere to in your current position? Select all that apply.



Auditor Note: The policies utilized in Q1 are applied citywide, and although daily application will depend on the employee's function, all employees must adhere to these.

(Q2) Are you aware of the Employee Policy Manual, sometimes referred to as the EPM?  
(Answered: 44 Skipped: 0)



Auditor Note: For Q2, all employees surveyed should be aware of the EPM.

(Q3) Where would you go to locate the EPM?

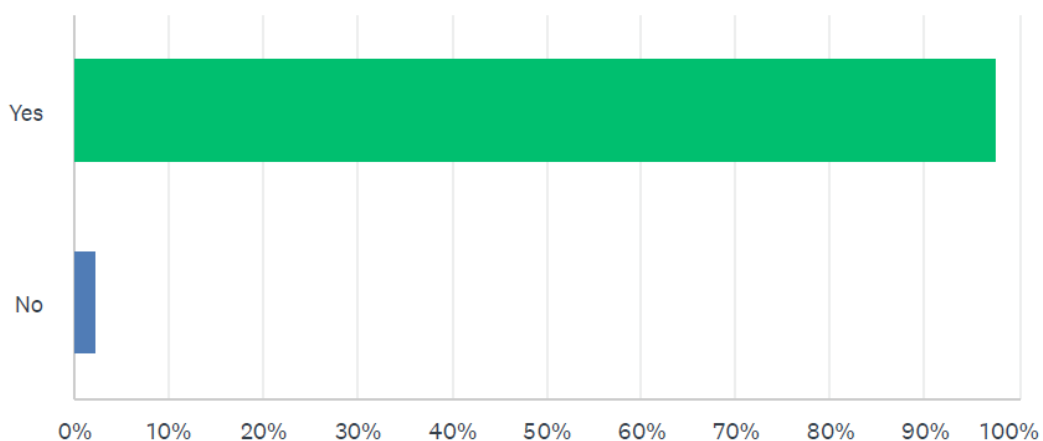
(Answered: 43 Skipped: 1)

Q3 required respondents to enter their responses into a text box, and all 43 that responded identified the city's intranet site as the location where they could locate the EPM.

Auditor Note: For Q3, InsideSurprise, the city's intranet site, is the best way to locate the most up-to-date version of the EPM.

(Q4) Were you given ample opportunity to review the EPM?

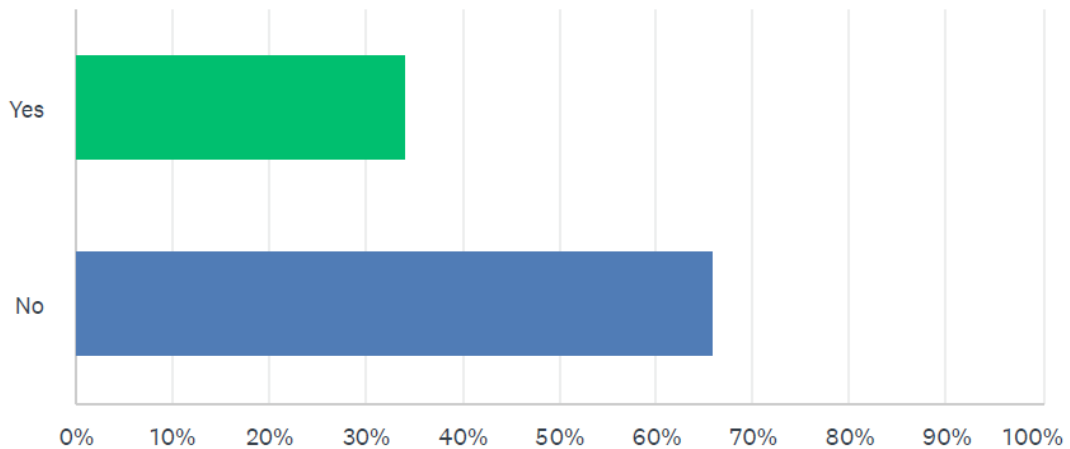
(Answered: 44 Skipped: 0)



Auditor Note: For Q4, per EPM 1.3 Implementation & Disseminations, B. Procedure, 3. Maintenance/Acknowledgment, 'Department directors shall provide each employee under their supervision with ample opportunity to read the EPM and amendments thereto.'

(Q5) Have you read the EPM in its entirety?

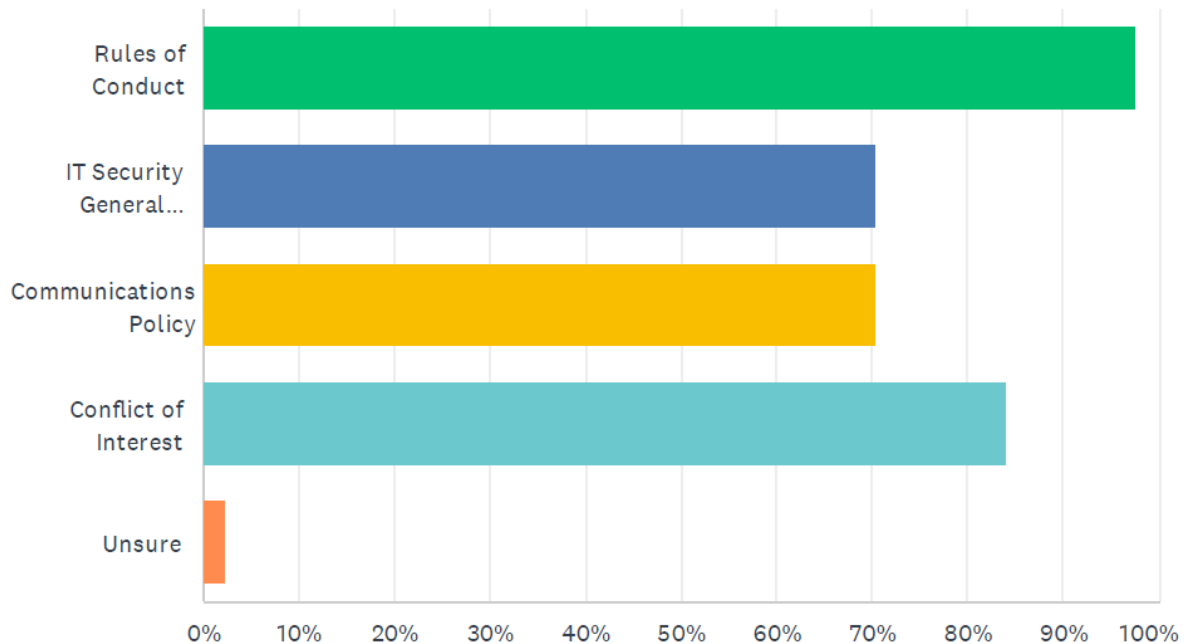
(Answered: 44 Skipped: 0)



Auditor Note: For Q5, as the EPM notes in Q4, an employee shall be given ample time to *read* the EPM, and since they must adhere to these policies and procedures.

(Q6) Which policies and procedures are included in the EPM? Select all that apply.

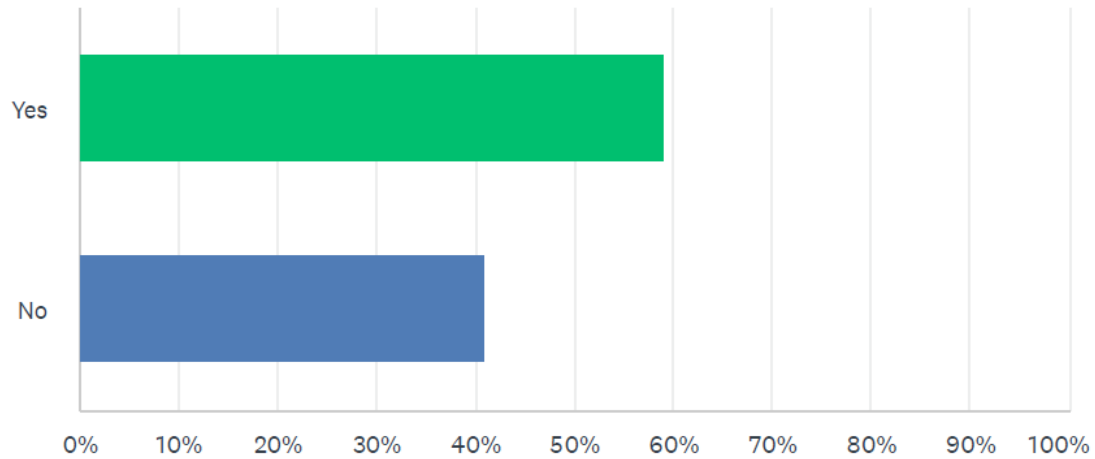
(Answered: 44 Skipped: 0)



Auditor Note: For Q6, Rules of Conduct and Conflict of Interest are included in the EPM. While there are mentions of the Communications Policy, the detailed policy lives outside the EPM but is referenced within. The IT Security General Controls policy is not within the EPM, although the EPM does contain excerpts.

(Q7) Are you aware of the Surprise Ethics Handbook?

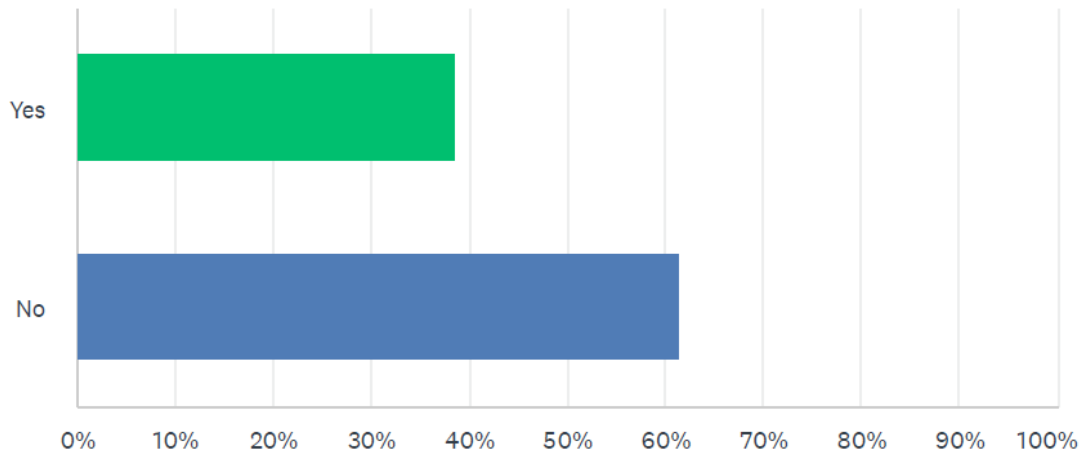
(Answered: 44 Skipped: 0)



Auditor Note: For Q7, all employees surveyed should receive training on the Surprise Ethics Handbook.

(Q8) Have you reviewed the Surprise Ethics Handbook in the last 12 months?

(Answered: 44 Skipped: 0)



Auditor Note: For Q8, employees are only trained on and asked to acknowledge the handbook upon hire.



**CITY OF SURPRISE  
Audit Committee**

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Council Meeting Date: June 22, 2023  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

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

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**Agenda Wording:**

Presentation, discussion, and action pertaining to the Quarterly Audit Recommendations Status Report.

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**Motion:**

I move to approve and distribute the Quarterly Audit Recommendations Status Report.

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**Background:**

This item has been placed on the agenda to discuss the results of work performed as part of the FY2022-2023 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

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**Objective Analysis:**

The mission of the City Audit Committee is to provide advice to the 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 city 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.

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**Policy Compliant:**

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the city 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.

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**Financial Impact:**

This item relates to work performed as part of the FY2022-2023 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

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**Budget Impact:**

There is no budget impact associated with this item.

**FTE Impact:**

There is no FTE impact associated with this item.

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**ATTACHMENTS:**

1. Audit Recommendations Status Report-12Jun2023
-



## Audit Recommendations Status Report

June 12, 2023

Carol Holley, City Auditor

## Contents

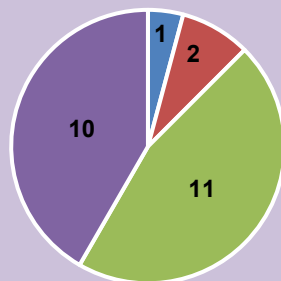
|  |   |
|--|---|
| Summary .....                                  | 1 |
| Purpose and Standards .....                    | 2 |
| Methodology.....                               | 2 |
| Exhibit A – Audit Recommendations Detail ..... | 4 |

## Quarterly Highlight

**Human Resources and Information Technology** - During the Management of Policies and Procedures Audit, Human Resources and Information Technology worked with CAD to complete 62% (8 out of 13) of audit recommendations as the audit occurred and risks were identified.

### Overview of Audit Recommendations for the Period of 3/14/2023 to 6/12/2023

- Non-Concurrence (No Additional CAD Action)
- Partially Implemented
- In Progress
- Fully Implemented



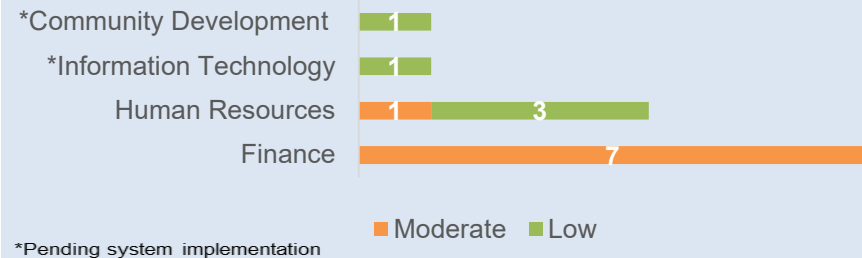
## Summary

Quarterly, the City Auditor Department (CAD) reports to the City of Surprise (City) Audit Committee on actions taken by staff to address audit recommendations. This report summarizes actions taken by staff from March 14, 2023, to June 12, 2023.

During the period, 24 audit recommendations were tracked and monitored by the CAD: 42% (10 out of 24) audit recommendations were completed; 54% (13 out of 24) are pending completion, and 4% (1 out of 24) was a non-concurrent recommendation. Exhibit A summarizes the 24 audit recommendations monitored for the period.

The CAD appreciates the time and resources allocated by City departments to develop action plans to address identified risks to City assets and information. ***Special thanks to Finance for their active participation in three audit engagements this quarter.***

### Audit Recommendations Pending Completion as of 6/12/2023



## 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, the CAD tracks observations and recommendations in SharePoint. Periodically, the CAD 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 the CAD. In some cases, the CAD will go beyond the standard process, 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:

**Complete** – City staff partially concurred or concurred with the audit recommendation. Management action plan has been completed, and when appropriate, supporting documentation was provided to the CAD for review. **(See Exhibit A.)**

**Ongoing or Partially Implemented** – 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.)**

**Not Implemented** – City staff concurred with audit recommendations and are in the process of implementing a management action plan to address the identified risk to City assets and information. **(See Exhibit A.)**

**Not Implemented Not Monitoring** – City staff did not agree with the audit recommendation. CAD will take no additional action at this time. **(See Exhibit A.)**

| Audit ID | Section ID                                   | Department             | Report Date            | Recommendation  | Current Status  | Management Update Comments   | Risk Level |
|----------|--|------------------------|------------------------|---|---|--|------------|
| 2020-01  | <b>Building Safety Permit Processing</b>     |                        |                        |   |   |  |            |
|          | 3A   | Community Development  | 6/16/2019 12:00:00 AM  | 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.<br><br>i. The LIS "End Date" field should be updated when fees expire.<br>ii. Any corrections should be submitted to IT for processing.  | OnGoing - OnTrack<br><i>(Pending System Implementation)</i> | As of 12/2/ 2022 - Database design was finalized and accepted in November 2021. Currently, coding of the following modules (Dev. Agreement, Design Review, Permit Tracking, Code Enforcement, Digital Review, Cashiering) are still underway along with the integration and coding of the different Application Programming Interfaces (APIs) to Munis, Tyler cashiering, Paymentus (online payment portal) and Camino (online user interface). Upon module completion, staff will begin User Acceptance Testing (UAT), which may require the developer to adjust code based on user input. Prior to final acceptance, the project team will conduct staff training. The project is estimated to be at 70% with Final acceptance of the LIS project estimated for late fall or early winter.                                     | Low        |
|          | 3B   | Information Technology | 9/16/2019 12:00:00 AM  | 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<br><i>(Pending System Implementation)</i> | Provided by the Community Development Director on 12/2/2022: Database design was finalized and accepted in 11/2021. Currently, coding of the following modules (Dev. Agreement, Design Review, Permit Tracking, Code Enforcement, Digital Review, Cashiering) are still underway along with the integration and coding of the different Application Programming Interfaces (APIs) to Munis, Tyler cashiering, Paymentus (online payment portal) and Camino (online user interface). Upon module completion, staff will begin User Acceptance Testing (UAT), which may require the developer to adjust code based on user input. Prior to final acceptance, the project team will conduct staff training. The project is estimated to be at 70% with Final acceptance of the LIS project estimated for late fall or early winter. | Low        |
| 2023-02  | <b>Signature Authorization</b>               |                        |                        |   |   |  |            |
|          | 1A   | Finance:Accounting     | 10/11/2022 12:00:00 AM | Complete the reconciliations in accordance with the 45-day policy. If the requirement cannot be met, the reason for the delay should be noted on the reconciliation and approved by the Accounting Manager.<br><br>The Finance Department should evaluate establishing tolerances and materiality thresholds for reconciling items allowing discrepancies below these thresholds to be researched and resolved later but still reconciled within the fiscal year. | Complete  | We concur with the recommendation to complete the reconciliation within 45 days and to evaluate the tolerances for discrepancies. The bank reconciliations have always been started as soon as the month ends; however, historically, we haven't considered the reconciliation complete until every penny is accounted for. We will implement the recommendation to complete the reconciliation and research immaterial discrepancies in the following month, beginning with the December 2022 reconciliation.   | Low        |
|          | 1B   | Finance:Accounting     | 10/11/2022 12:00:00 AM | In addition, when completing the reconciliation, the Finance Department should consider identifying repeating reconciling items and work with the appropriate department personnel to find the underlying cause of the reconciling items in an effort to reduce future instances.   | Complete  | We concur with the recommendation to determine the causes for any reoccurring immaterial discrepancies, such as discrepancies due to the timing of when certain transactions post to the general ledger versus when they post to the bank, beginning with the December 2022 reconciliation.  | Low        |
| 2023-05  | <b>Management of Policies and Procedures</b> |                        |                        |   |   |  |            |
|          | 4A   | Human Resources        | 3/23/2023 12:00:00 AM  | Work with the IT Security manager to ensure the IT Security Awareness training is given annually in accordance with the Information System Security General Controls Policy.  | Complete  | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 4/28/2023<br><br>IT Security Awareness training was added to the annual training schedule at the time this deficiency was discovered and pushed out to full-time regular and part-time regular employees on 12/13/2022.   | Low        |
|          | 4B   | Human Resources        | 3/23/2023 12:00:00 AM  | Work with the IT Security manager to create a formal annual training schedule that includes the timing of when the Security Awareness Training needs to be assigned to employees to meet the annual training requirement  | Complete  | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 4/28/2023<br><br>IT Security Awareness training was added to the annual training schedule at the time this deficiency was discovered.   | Low        |

| Audit ID | Section ID                | Department             | Report Date           | Recommendation   | Current Status  | Management Update Comments  | Risk Level |  |
|----------|---------------------------|------------------------|-----------------------|--|-----------------|---|------------|--|
|          | 5A                        | Human Resources        | 3/23/2023 12:00:00 AM | Ensure notice and training of EPM updates and amendments are provided to employees in accordance with EPM 1.4.   | Not Implemented | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 12/29/2023<br><br>When EPM Updates and amendments occur, generally, notification and training are provided simultaneously. To increase the efficiency and effectiveness of communication of these changes to employees, the Human Resources department will update the policy to reflect a 60-day requirement for both notification and training of substantive policy updates.  | Low        |  |
|          | 5B                        | Human Resources        | 3/23/2023 12:00:00 AM | Have the policy be effective when the City Manager approves the change.  | Complete        | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 4/28/2023<br><br>This change was put into place by the Human Resources team at the time the deficiency was identified. Moving forward, policy changes will be effective on the date of the City Manager's signature.   | Low        |  |
|          | 6A                        | Human Resources        | 3/23/2023 12:00:00 AM | Update the conflict of interest notification process to be clearly defined and consistent across policies and procedures where conflict of interest is mentioned by working with Finance. Conflict of interest should be acknowledged by employees annually, similarly to how Secondary Employment is acknowledged by employees.   | Not Implemented | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 3/31/2024<br><br>The Human Resources Department will work with the Finance Department to ensure consistent policies and procedures as it pertains to Conflict of Interest. Additionally, the Conflict of Interest policy will be assigned to all employees on an annual basis for review and disclosure along with the Secondary Employment policy.<br><br>The next time these will go out is in March of 2024.  | Low        |  |
|          | 6B                        | Human Resources        | 3/23/2023 12:00:00 AM | Update the Ethic and Values Guide to clearly define the city's core values, as shown in the Values Statement. It should also be updated to be consistent with and reflect EPM updates and amendments and include a commitment to investigate and take action on reported concerns, a policy on data security, a policy on compliance with laws and regulations, and consequences for non-compliance. The Ethic and Values Guide should be acknowledged by employees annually, similarly to how the EPM is acknowledged by employees. | Not Implemented | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 12/29/2023<br><br>Concurs with Conditions – The City of Surprise Human Resources Department will work with City Leadership to abolish the Ethics and Values Guide and instead incorporate an Ethics and Values statement into the beginning of the EPM. Policies specific to ethics and values will be designated in the EPM as well. This creates a less burdensome process with one document to maintain instead of two, plus it is more convenient for employees only to have one document to reference. This also prevents the risk that policies in different sources might contradict one another. | Low        |  |
|          | 6C                        | Information Technology | 3/23/2023 12:00:00 AM | Update the IT Policies and Forms page to reflect current policies and procedures.  | Complete        | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 4/21/2023<br><br>The policy has been updated and posted effective 4/21/2023.   | Low        |  |
| 2023-03  | <b>Vendor Master File</b> |                        |                       |  |                 |   |            |  |
|          | 1B                        | Finance                | 9/30/2022 12:00:00 AM | Review; evaluate; and take action, if needed, on the potential conflicts of interest identified during the audit.  | Not Implemented | We concur with the recommendation to obtain documentation for the potential conflicts of interest identified in the audit. The Accounting Manager and AP team will work with Procurement and Human Resources to obtain documentation on future potential conflicts of interest and document within the Vendor Master File starting 12/1/2022. A review of the conflicts of interest identified in the audit will be completed by 1/31/2023.   | Moderate   |  |

| Audit ID | Section ID              | Department | Report Date           | Recommendation  | Current Status        | Management Update Comments   | Risk Level |
|----------|-------------------------|------------|-----------------------|---|-----------------------|--|------------|
|          | 1C                      | Finance    | 9/30/2022 12:00:00 AM | Follow with fidelity its policies and procedures that direct it:<br><br>i. To obtain a W-9 or W-8 before setup in Munis.<br>ii. To cross-reference employee data, like addresses, phone numbers, etc. with vendor data for possible conflicts of interest.  | Not Implemented       | We concur with the recommendation and will review that a W-9 is received before setup in Munis and will review each new vendor for potential conflict of interest. The Accounting Manager will cross reference employee and vendor data quarterly to review for possible conflicts of interest starting 1/01/2023. The first quarterly review will be completed for the quarter ending 3/31/2023, and completed in April 2023.   | Moderate   |
|          | 2B                      | Finance    | 9/30/2022 12:00:00 AM | Implement its duplicate vendor policy by:<br><br>i. Performing and documenting its quarterly review for duplicate vendors.<br>ii. Documenting any updates it makes as a result of its quarterly review.   | Partially Implemented | First quarterly reviewed performed on 01/03/2023 (attached) A/P researched these potential duplicates and "stopped" one vendor as a result.  | Moderate   |
|          | 3A                      | Finance    | 9/30/2022 12:00:00 AM | Create a formal "stop" vendor policy that includes, but is not limited to:<br><br>i. Indicating the frequency of review.<br>ii. Detailing the process for review, including criteria it will use to evaluate a vendor for "stop" status to prevent its use on requisitions, purchase orders, and invoices.<br>iii. Directing AP to act on the vendors it identifies.  | Not Implemented       | We concur with the recommendation to create a formal "stop" vendor policy. The policy will be created by 12/31/2023. Note that the AP department has engaged the Information Technology department to help with a "mass stop" of inactive vendors identified by the Accounting Manager. All vendors that have not had activity in the previous three years have been deactivated within Munis. This was completed in November 2022.  | Moderate   |
|          | 3B                      | Finance    | 9/30/2022 12:00:00 AM | Implement a formal "stop" vendor policy and:<br><br>i. Review vendors for inactivity, as defined by Finance's "stop" vendor policy.<br>ii. Modify vendor status to "stop" for vendors that meet or exceed the "stop" vendor policy.<br>iii. Document the results of the review.   | Partially Implemented | AP worked with IT to identify and "stop" all vendors that did not have activity for the previous three years as of June 2022. That resulted in over 1,000 vendors being "stopped." AP will review each year after year-end. However, AP does not have a formal "stop" vendor policy in place yet. Therefore, there is no criteria to evaluate 3B with. Further, 3B #3 recommends that AP document the results of the review; no supporting documentation was provided as of 2/14/2023. On 2/17/2023, the Assistant Director of Finance provided supporting documentation for the vendors' AP stopped. However, 3B cannot be evaluated until 3A is implemented. | Moderate   |
| 2023-04  | <b>Accounts Payable</b> |            |                       |   |                       |  |            |
|          | 1                       | Finance    | 3/23/2023 12:00:00 AM | Require sufficient supporting documentation, like receiving evidence and documented evidence that invoices are okay-to-pay, with all invoices that are submitted to Finance for payment.  | Not Implemented       | Management partially concurs with the audit recommendation.<br><br>Recommendation Completion Date: 8/31/2023<br><br>Finance will require departments to include evidence that goods and/or services were received if the department receives evidence of receipt. Department authorization for paying invoices is already received when an invoice is processed through Munis workflow.  | Moderate   |
|          | 2                       | Finance    | 3/23/2023 12:00:00 AM | Update its Guidelines to require that departments include sufficient supporting documentation, including documented evidence that goods and/or services were received, and invoices are okay-to-pay, with all invoices that are submitted for payment. Minimally, the Guidelines should include guidance on what documentation is sufficient support for the receipt of goods and/or services and how departments should document the person authorizing the okay-to-pay before entry in Munis. | Not Implemented       | Management partially concurs with the audit recommendation.<br><br>Recommendation Completion Date: 8/31/2023<br><br>Finance will update Guidelines to require departments to include evidence that goods and/or services were received if the department receives evidence of receipt. Department authorization for paying invoices is already received when an invoice is processed through Munis workflow.   | Moderate   |

| Audit ID | Section ID                                   | Department      | Report Date           | Recommendation   | Current Status                 | Management Update Comments   | Risk Level      |
|----------|--|-----------------|-----------------------|--|--------------------------------|--|-----------------|
| 2023-05  | <b>Management of Policies and Procedures</b> |                 |                       |  |                                |  |                 |
|          | 1A   | Human Resources | 3/23/2023 12:00:00 AM | Enforce the policy as stated in EPM 3.9 Employee Training & Development, A. Policy, h. holding employees accountable if the training is not completed within 60 days.  | Complete                       | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 4/28/2023<br><br>This recommendation was implemented immediately. The HR Administration team began running reports every other week to track incomplete and overdue Target Solutions assignments. These are sent to each department for follow-up. Additional follow-up occurs every two weeks, and if assignments remain incomplete, applicable department directors are notified.   | <i>Moderate</i> |
|          | 1B   | Human Resources | 3/23/2023 12:00:00 AM | Work with the active employees to ensure the employees complete any outstanding mandatory training.  | Complete                       | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 4/28/2023<br><br>This recommendation was implemented immediately. The HR Administration team began running reports every other week to track incomplete and overdue Target Solutions assignments.   | <i>Moderate</i> |
|          | 2A   | Human Resources | 3/23/2023 12:00:00 AM | Assign and ensure completion of the mandatory training for the employees identified during testing to be missing.  | Complete                       | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 4/28/2023<br><br>Upon discovery of the unassigned training, the HR Administration team immediately assigned the training to the applicable employees in Target Solutions.   | <i>Moderate</i> |
|          | 2B   | Human Resources | 3/23/2023 12:00:00 AM | Conduct and document a quarterly self-audit ensuring employees are classified correctly and the appropriate mandatory training has been assigned to required employees in TargetSolutions.   | Not Implemented                | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 12/29/2023<br><br>The HR Administration team will implement a quarterly self-audit program to ensure all employees are classified correctly and that all mandatory training has been assigned as required in Target Solutions. The HR Analyst will perform the audit and report the results to the HR Manager upon completion. Audit results will be stored in HR Administration>Training within Laserfiche.                                    | <i>Moderate</i> |
|          | 3A   | Human Resources | 3/23/2023 12:00:00 AM | Consult with the City Attorney on EPM 1.1 on if their interpretation of the language would be sufficient to supersede the requirement for them to review policies and procedures per EPM 1.3.  | Complete                       | Management concurs with the audit recommendation.<br><br>Recommendation Completion Date: 4/28/2023<br><br>The language has been discussed with the City Attorney.  | <i>Moderate</i> |
|          | 3B   | Human Resources | 3/23/2023 12:00:00 AM | If departments should be taking this action, HR should email Department Directors annually, reminding them of the EPM requirements and asking them to provide any policies/procedures and supporting documentation confirming employee acknowledgment. | Not Implemented-Not Monitoring | Management does not concur with the audit recommendation.<br><br>Recommendation Completion Date: N/A<br><br>The language in EPM 1.3.B.4 gives adequate guidance to department directors to send any department-specific policies related to personnel to HR for review prior to implementation. HR will look at updating the EPM to match the current practice of the department being responsible for tracking and managing employee receipt and acknowledgment of department-specific policies and procedures at the department level. | <i>Moderate</i> |

| Audit ID | Section ID | Department | Report Date | Recommendation | Current Status | Management Update Comments | Risk Level |
|----------|------------|------------|-------------|----------------|----------------|----------------------------|------------|
|----------|------------|------------|-------------|----------------|----------------|----------------------------|------------|

**Audit Observation Risk Rating**

|                 |  |
|-----------------|--|
| <b>High</b>     | 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.     |
| <b>Moderate</b> | 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 potential risk of loss to city assets. |
| <b>Low</b>      | 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.  |



**CITY OF SURPRISE  
Audit Committee**

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Council Meeting Date: June 22, 2023  
Submitting Department: City Auditor  
Staff Recommendations:

Contact Person:  
District: Citywide

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

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**Agenda Wording:**

Presentation and discussion pertaining to the City Auditor Department Newsletter.

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**Motion:**

No motion required.

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**Background:**

This item has been placed on the agenda to discuss the results of work performed as part of the FY2022-2023 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

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**Objective Analysis:**

The mission of the City Audit Committee is to provide advice to the 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 city 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.

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**Policy Compliant:**

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the city 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.

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**Financial Impact:**

There is no financial impact associated with this item.

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**Budget Impact:**

There is no budget impact associated with this item.

**FTE Impact:**

There is no FTE impact associated with this item.

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**ATTACHMENTS:**

1. Compliance Connection June 2023
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# Compliance Connection



## COMPLIANCE CONNECTION

Welcome to the City Auditor Department’s first edition of **Compliance Connection**. Our newsletter aims to provide city staff with an introduction to internal auditing and helpful tips for reducing the risk to city assets. This issue of **Compliance Connection** focuses on highlighting common auditing findings, providing a checklist for cash controls, and increasing awareness of fraud.

### Common Audit Findings -Following Policies and Procedures

By Angela Hanson

This year, we generally found that policies and procedures were not always followed. Policies and procedures:

- communicate expectations,
- provide guidance about performing tasks consistently and correctly,
- may promote workplace safety, and
- may ensure legal and regulatory compliance.



When policies and procedures are followed:

- operations run more smoothly,
- issues are more easily identified, and
- time and resources are better spent.

When an employee’s actions contradict City policies and procedures, it may be indicative of a gap in:

- communicating policies and procedures to employees,
- enforcing policies and procedures, or
- developing complete, robust policies and procedures.

The City’s policies and procedures exist in various forms, from the Employee Policy Manual to department-developed policies and procedures. Annually, City employees agree to comply with the Employee Policy Manual. Additionally, there may be other policies and procedures that you

attest to as part of your role with the City. Can you locate and apply the policies and procedures that pertain to your line of work with the City?

## Is Cash Processed and Handled in Your Department?

By Carol Holley



Is cash processed in your department? The [Finance Cash Handling Policies and Procedures](#) is an excellent starting point for developing effective controls over city cash and cash-like assets such as checks, gift cards, and procurement cards.

Based on data provided by Certified Fraud Examiners worldwide, the Association of Certified Fraud Examiners (ACFE) issue their Occupational Fraud: A Report to the Nations report every two years. In their [2022 report](#), the ACFE identified that various occupational fraud schemes involving cash lasted 12 to 18 months before they were discovered. Implementing and monitoring strong cash-handling policies and procedures is one way to help protect and secure city cash and cash-like assets such as checks, gift cards, and procurement cards.

Here's a quick checklist to get you started:

- Have all employees and volunteers who process and handle cash and cash-like assets received cash-handling training? Do they participate in annual refresher training?
- Is cash handled in dual custody?
- Is one person responsible for processing and handling cash and another responsible for reconciling the cash?
- Is cash kept in a cash register, safe, or locking cash drawer with appropriate key control?
- Is staff prohibited from sharing cash drawers?
- Are combinations changed periodically, at least annually, or when someone leaves the department?
- Are staff prohibited from mixing or comingling city funds with personal funds?
- Are periodic spot checks on cash performed?

Did you answer “**No**” to any of the above questions? If so, work with the Finance Department to review your cash handling practices.

## Let's Talk About Fraud!

By Athena DoBell-Garcia

Internal controls are ways that fraud can be prevented and detected. This is one reason why following policies and procedures is vital! Policies and procedures are control activities that help

ensure management directives are carried out. If you see or know someone not following policies and procedures, speak up!

Watch this short video to learn more about how a lack of these controls can contribute to increased fraud loss! [How Internal Control Weaknesses Contribute to Fraud](#)

Be sure to follow those policies and procedures! If you need help applying a policy or procedure, speak with Human Resources or your supervisor.



Now, how do you speak up, you might ask? One way is to talk with your supervisor, but there is also the option of the Whistleblower hotline. Go to InsideSurprise, review the [Whistleblower Ordinance](#), and note the Ethics Hotline Contact. **If you see something, say something!**

To be entered into a drawing for a prize, submit the email and phone number for the Ethics Hotline Contact in an email to [surpriseauditor@surpriseaz.gov](mailto:surpriseauditor@surpriseaz.gov).