CITY OF SURPRISE
City Audit Committee Meeting
16000 N. Civic Center Plaza
Surprise, AZ 85374
Wednesday, June 19, 2019 @ 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 pertaining to the March 13, 2019 meeting minutes.	Connie Bowers City Manager Office
2.	Citywide	Discussion and action pertaining to 4th Quarter summary of audit recommendations.	Connie Bowers City Manager Office
3.	Citywide	Discussion and action pertaining to the Payroll Error Review Memo.	Connie Bowers City Manager Office
4.	Citywide	Discussion and action pertaining to the Accounts Payable Continuous Review Report.	Connie Bowers City Manager Office
5.	Citywide	Discussion and action pertaining to the FY2018-2019 Annual Internal Audit Activity Report.	Connie Bowers City Manager Office
6.	Citywide	Consideration and action pertaining to the FY2019-2020 Annual Audit Plan.	Connie Bowers City Manager Office

7.	Citywide	Discussion pertaining to the engagement letters for the City of Surprise's June 30, 2019 annual external audit conducted by Heinfeld Meech.	City Manager Office
8.	Citywide	Action pertaining to approval of the Information Technology internal audit report.	Connie Bowers City Manager Office

G. Other Business and Future Agenda Items

H. Executive Session

1.		Consideration and action to recess into executive session pursuant to A.R.S. 38-431.03(A)(2) for presentation and discussion of Information Technology material and documents deemed confidential by law.	Connie Bowers City Manager Office

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

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

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

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

I. Adjournment

SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED:Wed., June 12, 2019 @ 4:54 p.m.

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

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: June 19, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person: Connie Bowers
District: Citywide

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

Agenda Wording:
Consideration and action pertaining to the March 13, 2019 meeting minutes.

Motion:
I move to approve the minutes of the March 13, 2019 City Audit Committee meeting.

Background:

Objective Analysis:

Policy Compliant:

Financial Impact:

Budget Impact:

FTE Impact:

ATTACHMENTS:
1. 20190313 Audit Committee meeting minutes - Draft

SURPRISE
ARIZONA

Audit Committee
16000 North Civic Center Plaza
Council Overflow Room
Surprise, AZ 85374

March 13, 2019

MEETING MINUTES – Draft

CALL TO ORDER

The meeting was called to order at 2:30 pm by Chair Holdaway followed by the Pledge of Allegiance.

ROLL CALL

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

STAFF PRESENT:

Mark Schott, Assistant City Manager, Carol Holley, Internal Auditor-Sr., Alison Matthees, Internal Auditor, Teresa Eierdam, Assistant Finance Director, Lisa Alexander, Accountant and Gloria Bianco, Committee Secretary.

Action item: Approval of November 7, 2018, Audit Committee meeting minutes – Andrea Davis motioned to approve the minutes and second by Vice-chair Connie Bowers. 4 yes votes, 2 abstain (Councilmembers Judd and Remy). Motion carried.

CAFR Presentation:
Chris Goeman, Audit Manager for Heinfeld, Meech & Company the cities external auditor. Mr. Goeman explained the procedure to start the audit. On-site for a total of 4 weeks testing internal controls and compliance. There were no difficulties performing the audit. The Auditors recommended a few journal entries to improve financial reporting. The first report discussed was the Single Audit which reported an unmodified opinion otherwise known as a clean opinion for each major fund.
There was a change in accounting principle that the city had to implement this year, GASB 75, the city experienced no issues with implementation.
The GAS letter which is the assessment of internal controls of the financial statement. There were no findings.

Uniform guidance, selected a CDBG Grant. The city is in compliance with each one of those compliance requirements.
Financial Statements, received an unmodified opinion.
Federal Awards, auditors did identify 1 deficiency, a semi-annual report was not submitted timely for the Dept of Defense Grant and Community Economic Adjustment Assistance or Compatible Use and Joint Land Use Studies. CDBG Grants financial reporting was also late.
Management Letter reported minor findings. There is no mechanism to identify and track any possible conflict of interest. Our City Attorney's Office will be the lead on developing policy.
Cash reconciliation, there was an unreconciled balance, recommended that complete bank reconciliation is performed monthly. Mrs. Davis indicated that this occurred due to system changes, all statement are reconciled every month.
Capital Assets, the auditor's sampled capital assets to support the cost of the asset. A spreadsheet no invoices supported the Stadium building. However, this was two financial systems ago.
Federal Procurement Compliance, If one was not adopted a memo needed to be in place advising that the old guidance was still in place. Beginning FY2019, the city has to adopt Uniform Guidance
Expenditure Limitation Report was in accordance.
HURF complied with statue.

Biennial Certification of Land Use Assumptions, infrastructure Improvement Plan, and Development Impact Fees Report:
Sampled building permits issued and determined fees were charged in accordance to authorized fee schedules.
Developer/unit is charged at the same rate as another equivalent developer/unit.
Finding #1, there was a variance from the Land Use Assumptions compared to actual results
Finding #2, found two waived permit fees rather than recording them as credited in the permitting software.
Finding #3, charged two fees for a project, which is reasonable however not noted in the city's IIP.
Finding #4, overcharges to project permits.

Audit Projects Update:

Ms. Holley updated the committee on 3 projects.

Quarterly Audit Recommendations Status Report previously a yearly report, due to the recommendation of the committee is now reported quarterly.
With 13 open recommendations from the prior report, 3 have been implemented, 8 are from the City Clerk's Office still an on-going process trying to automate some of their processes, 2 recommendations are off the list. Department currently going through some modifications that will change their process. Time will be permitted to implement their new software and reaudit their process from the beginning.
No questions on this report.

Procurement Purchasing Card – Continuous Monitoring report, Alison Matthees reported that this was not a formal audit, it was part of our continuous monitoring program. The objective was to monitor for any potential fraud, make sure we're following our p-card policy and to conduct a trend analysis. In general, there were 11 departmental findings,

such as missing receipt and incorrect methods of documenting information. Alison indicted this was used as an educational opportunity with the departments to make sure they complied with policy going forward. There were no significant findings.
Councilmember Remley asked if an excessive amount of issued p-cards contributed. Discussion concluded it is up to department heads as to who will be issued cards.
No additional questions.

Community and Recreation Services Program Registration Audit Report: Ms. Holley advised that there were two primary objectives related to this audit. To verify if CRS had adequate controls over the program registration and recorded revenue and to verify adequate IT controls were implemented over the CRS cashiering system. CRS had recently transitioned from legacy system to CivicRec.
There were 16 recommendations, with two top observation throughout the process that contributes to recommendations — 1) Lack of a revenue control management policy to provide guidance on write-off and account receivable collections.
2) Best practices were not always used during the application software implementation and data migration resulting in data integrity concerns.
Auditors noted that at the end of the audit, the controls that CRS have in place materially do ensure the accuracy of the reporting of the registration revenue. Contact was made with the vendor to implement best practices for change management, IT was engaged for consulting purposes.
Councilmember Remley commented on the use of collection only once per year.
No further comments.

Ms. Holley mentioned possible audits that will be reviewed at our next meeting. Community Development building permit and IT controls. CD is in the process of looking for new software for permitting, looking at those procedures.
Auditors are also working on the benefits and enrollment audit and crises response audit.

Committee Vacancy

Ms. Holley mentioned that the Audit committee currently has a vacancy for more than six months. She knows someone very interested in serving on the committee, who is an expert in her field but is not a resident of the City, per city code you must be a city resident to serve on a committee. Ms. Holley asked the committee what their thoughts were on requesting a waiver from the City Attorney's office.

Councilmember Remley indicated if the City Attorney is consulted, changing the reporting structure for the Auditors from City Management to the Council should be considered. Ms. Holley clarified that the reporting structure had been changed to reflect any audits under the purview of the Assistant City Manager are reviewed by the City Manager any audits that fall under the City Manager are reviewed by the Assistant City Manager. Councilmember Judd expressed concern with a concept of the Auditors reporting to Council, specifically being subjected to political winds.

Alison mentioned industry norms for the reporting of the Auditor. The functional reporting is to the Audit Committee, and the Administration portion belongs to the City Manager's office.

Mrs. Holdaway felt we would set precedence by waiving residency requirements and didn't feel the committee wanted to do this.

Mrs. Davis recommended that instead of changing the residency we could propose a change that one seat could go to a resident or non-resident who is a subject matter expert in the field.

It was agreed that all efforts to recruit locally would be exhausted before considering alternative approaches.

Open Discussion:

No further discussion

Date and Time of Next Meeting:

It was decided to have our next meeting on Wednesday, June 19, 2019, at 3:30 pm. Gloria will send meeting notices to everyone.

Adjournment:

Chair Melissa Holdaway motioned to adjourn the meeting. Councilmember Judd seconded. 6 yes votes. Motion carried.

The meeting adjourned at 4:08 p.m.

Submitted by

_____
Mark Schott, Assistant City Manager

The foregoing instrument is a full, true and correct copy of the original document on file in the office of the City Clerk, City of Surprise, Arizona.

ATTEST BY: _____
Gloria Bianco, Committee Secretary

DATE: _____

Mission statement:

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

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: June 19, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person: Connie Bowers
District: Citywide

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

Agenda Wording:
Discussion and action pertaining to 4th Quarter summary of audit recommendations.

Motion:
I move to approve and distribute the 4th Quarter summary of audit recommendations.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2018-2019 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year. The attached PowerPoint presentation will relate to this item, as well as other items on the agenda, and is intended to guide discussion throughout the meeting.

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

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

Financial Impact:
This item relates to work performed as part of the FY2018-2019 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. 4TH Qtr Audit Recommendation Status Report
2. 19Jun2019- Audit Cmt PowerPt Presentation

SURPRISE
ARIZONA

Date: May 30, 2019

To: Mark Schott, Assistant City Manager

From: Carol Holley, Sr. Internal Auditor

Subject: Fourth Quarter Audit Recommendations Status Report

As part of the Annual Audit Plan, Internal Audit periodically reports to the Audit Committee on the implementation status of audit recommendations.

The attached report contains the status of 17 recommendations from FY2018-2019 and eight recommendations from FY2017-2018. Seventeen recommendations are closed, one recommendation is no longer applicable as new software was implemented, and seven recommendations were carried forward for additional monitoring by Internal Audit. Staff has initiated corrective actions and estimate completion of outstanding recommendations by October 31, 2019.

Attachment

SURPRISE

ARIZONA

City of Surprise

Fourth Quarter Audit Recommendations Status Report

June 19, 2019

Carol Holley, Sr. Internal Auditor

Alison Matthees, Internal Auditor

Table of Contents

EXECUTIVE SUMMARY

Scope and Purpose

Enclosed is the quarterly summary of outstanding audit recommendations. The purpose of this report is to inform the Audit Committee of the implementation status of audit recommendations made by Internal Audit (IA).

As of March 1, 2019, 25 audit recommendations remained open as City of Surprise (City) staff worked to implement audit action plans. IA conducted follow-up procedures on all outstanding recommendations in April 2019.

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, appropriate department management develops detailed management action plans including assigned personnel and due date to implement the recommendation. The purpose of performing an audit follow-up review is to determine the status of management action plans. The need for audit follow-up procedures is referenced in *Governmental Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*:

Governmental Auditing Standards:

> ***GAGAS 6.36*** *– "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 the completion of each audit, audit observations and recommendations are tracked in an Excel spreadsheet by IA. Quarterly, IA performs follow-up procedures on the status of audit recommendations with the appropriate City departments and responsible individuals. Departments self-report the status of their management action plans. Testimonial or documentary evidence is obtained and reviewed by IA. In some cases, IA will go beyond the standard process and perform more in-depth verification of the extent to which certain audit recommendations have been implemented, and issue a

separate report on this work. All recommendations reviewed were placed in the following status categories:

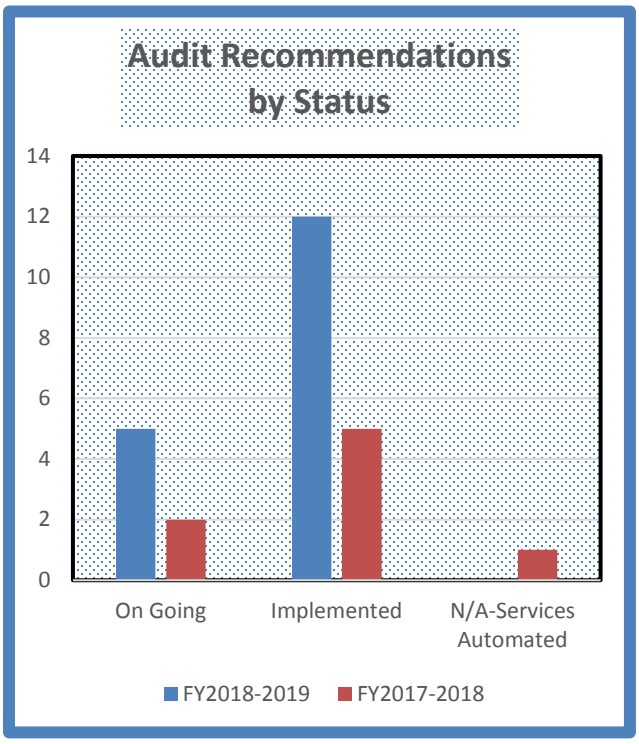
Ongoing – City staff provided some evidence of progress on the recommendation; however, either elements of the audit recommendation were not addressed, or the department reported it has begun to implement the audit recommendation and has not yet completed the implementation **(See Exhibit A)**.

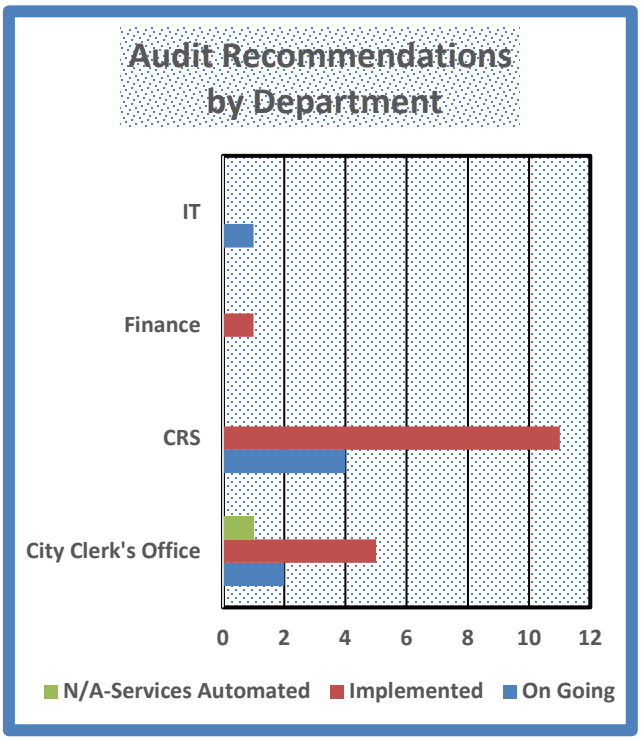
Implemented – City staff provided sufficient and appropriate evidence to support elements of implementing the audit recommendation **(See Exhibit B)**.

N/A-Services Automated – Services were automated after the recommendation was made. **(See Exhibit C)**.

Summary of Implementation Status

On March 1, 2019, eight audit recommendations were pending from the previous quarter and 17 new recommendations were added to the status tracking spreadsheet for a total of 25 open audit recommendations monitored by IA for the fourth quarter of FY2018-2019. As of May 30, 2019, 17 (68%) audit recommendations were implemented, 7 (28%) are ongoing, and 1 (4%) is no longer applicable as the department automated department services as recommended by IA. Staff has initiated procedures to address the seven remaining ongoing recommendations. The seven remaining ongoing recommendations were carried forward on the quarterly tracking spreadsheet and will continue to be monitored by IA. The below charts summarize the progress of implementing audit recommendations by status and department:





Audit Highlights

As a result of staff efforts, one department automated services resulting in a:

- Decrease in supply cost
- Decrease in customer service time
- Elimination of duplication of manual processes
- Strengthening of segregation of duties controls
- Increased internal control over cash
- Increase in securing stored documents and the management of assigned processing request numbers

Conclusion

IA commends City staff for their efforts in implementing audit recommendations. City staff worked continuously within their departments and with the applicable City experts across departmental lines to address audit recommendations to reduce risk to City assets and to strengthen internal controls.

EXHIBITS

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Exhibit A
Ongoing Audit Recommendations

Count	Division/ Department	Report Title	Report Date	Recommendation	Status as of April 6, 2018	2018 Management Update Comments	Management Update Comments February 10, 2019	Management Update Comments May 22, 2019	Risk Level
1	City Clerk's Office	City Clerk's Public Records Request	8/14/2017	Review the copy fee schedule rates and make adjustments as necessary. The review should include, but not limited to establishing a minimum service level at which fees will be assessed.	Ongoing	I met with Finance in December 2017 on the fee schedule for records requests. Finance is currently reviewing records request fee structure for the City Clerk's Office. Finance will be conducting a 60 day tracking for Clerk, PD, Fire, CD and Engineering records requests. Extend completion date - December 2018 per Finance Dept.	On February 2, 2018, in response to the Auditor's findings, the Finance Department contacted the City Clerk, Community Development, Fire-Medical, and the Police Departments to propose a citywide revision to the record request fees. On May 8, 2018, the Finance Department requested that the City Clerk's Office, City Attorney's Office, Fire-Medical, Police, Public Works, and Community Development Departments collect 60 days of record request processing time data. On November 29, 2018, the data collection process was complete and a meeting was held with Finance to review the data and discuss the necessary financial analysis. The Finance Department anticipates that the identification of a new citywide fee structure for record requests will finalized by October 2019.	The fee update is scheduled for this fall and expected to be completed by October 2019.	Moderate
2	City Clerk's Office	City Clerk's Public Records Request	8/14/2017	Work in conjunction with the Finance Department to: Submit a complete public records requests fee schedule to City Council for review and approval by resolution Replace the current copy fees statement on the bottom of the City Clerk Form with "Copy fees will be assessed in accordance with the adopted Citywide Fee Schedule"	Ongoing	***Auditor's Note:*** *Ongoing. An email was received on May 8, 2018 from the Finance Process and Policy Analyst discussing record request fees.*	On February 2, 2018, in response to the Auditor's findings, the Finance Department contacted the City Clerk, Community Development, Fire-Medical, and the Police Departments to propose a citywide revision to the record request fees. On April 8, 2018, the Finance Department requested that the City Clerk's Office, City Attorney's Office, Fire-Medical, Police, Public Works, and Community Development Departments collect 60 days of record request processing time data. On November 29, 2018, the data collection process was complete and a meeting was held with Finance to review the data and discuss the necessary financial analysis. The Finance Department anticipates that the identification of a new citywide fee structure for record requests will finalized by October 2019.	The fee update is scheduled for this fall and expected to be completed by October 2019.	Moderate
3	CRS	Program Registration	10/11/2018	Develop and document a revenue control and management policy that includes billing and collection practices. The policy should include, but not limited to: Establishing a collection time frame Establishing dollar threshold for authorizing write-offs Requiring documentation and written authorization to write-off accounts receivable Adequately documenting and retaining support for adjustments, write-offs, and collection efforts Using the City collection contract, when appropriate Periodically reconciling subsystems to financial systems throughout the fiscal year Ensuring all applicable transactions processed in subsystems are reflected in the City's financial system promptly	Ongoing	N/A	Concur. CRS agrees that a formal revenue control and management policy for delinquent accounts should be developed as a component of the internal controls over revenue. CRS met with Finance on January 16, 2019 to discuss formalizing an uncollectable/delinquent account policy. Finance Department will work on a draft a policy by March 31, 2019 and CRS will write an SOP for the department by April 30, 2019. CRS staff will receive overview of the SOP by the end of May 2019. During implementation of the new software one of the items to discuss was credits and balances on accounts. CLASS software had been in use since mid-2005 and over the 12 years there were outstanding balances; both credits and debits. Reports from CLASS showing the outstanding credits and debits were sent to Finance at the end of each month. In 2016, Finance notified CRS concerning the Arizona Unclaimed Property statute and that credits more than four years old needed to be refunded or sent to unclaimed property. At that time, the CRS class cancellation policy was to primarily credit accounts rather than refund customers, so there was several years' worth of unused credits on accounts. CRS identified all impacted accounts and immediately addressed the issue. CRS staff have since followed the statute provisions and completed an annual review. As far as the procedure for collecting outstanding balances; CRS staff would call the customer, send a letter and ultimately freeze accounts where the customer had failed to pay balance. There was no process or policy in place to send to collections; and CRS was not aware of a contract with a collection agency that became effective in February of 2017. Annually CRS brings in close to $1.8M for recreation programming; and over a twelve year span there was approximately $117,000 in balances still remaining on accounts. Prior to the migration, CRS met with Finance to discuss the best way to handle the credits and balances. It was determined that due to the amount of time that had passed; the best option was to write off anything more than two years old. Although a formal policy was not in place; since implementation of Civic Rec CRS has established the following process. There is a review of accounts at 30 days, 60 days and 90 days. At fiscal year-end, all outstanding balances will be written off and sent to collections.	CRS has established a process for collecting on payment plan programs and hired a part-time Admin Tech dedicated to overseeing payment plan programs and other outstanding balances. Although the procedures have been established, a formal SOP is still pending while Finance finalizes the City revenue control and management policy. Once the formal policy has been completed, CRS will finalize its Department procedures to ensure the procedures compliment the policy. CRS has worked with Finance on sending delinquent accounts to the City's contracted collection agency. Eight accounts were forwarded to the collection agency in March and seven were sent in April. Due to the process now in place and having the dedicated resources to follow up on delinquent accounts, the number of accounts to be sent to collections in the future will be minimal. The CRS Department has been working with Finance and the software vendor to reconcile Civic Rec and Munis from the CLASS conversion. It is the goal to have this completed by June 30th so that moving forward, both systems can be periodically reconciled.	High

Audit Observation Risk Rating

High	Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High risk observations should be implemented to mitigate current gaps in areas 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 potential risk of loss to city assets.
Low	Represents an observation for consideration by management for correction or implementation associated the process being audited. Low risk observations should be implemented to improve efficiency and effectiveness of operations.

Count	Division/ Department	Report Title	Report Date	Recommendation	Status as of April 6, 2018	2018 Management Update Comments	Management Update Comments February 10, 2019	Management Update Comments May 22, 2019	Risk Level
4	CRS	Program Registration	10/11/2018	Ensuring that all migration CLASS and CivicRec manual adjustments are reflected and reconciled to the MUNIS financial system.	Ongoing	N/A	Concur. The vendor was not able to migrate the balances from CLASS to Civic Rec. Although not ideal, the migration of data for debits and credits from CLASS to Civic Rec was a manual process completed by staff. In addition, CRS only wanted to migrate patrons who utilized services within the past two years to the new software in an attempt to clean-up patron information that was incorrect and outdated. Many of the old balances/credits in CLASS were for patrons who weren't going to be migrated anyway, so therefore, the manual process was essential. The analysis of the 1,500 accounts with balances and credits in CLASS required a significant amount of time to determine if the amount should be transferred, written off or refunded. A record of all the activity for both balances and credits, along with other adjustments in CLASS due to cancellations, refunds, etc. were tracked on a spreadsheet. For balances and credits that were transferred to Civic Rec, the impacted account was documented in both systems concerning the transfer. For transactions older than two years, the patron's record in CLASS was documented and the information was either included on the documentation for Finance for a debt write-off or included on the annual credit refund project. Due to the length of time to manually migrate the data, along with the fact that both systems were still being activity used (CLASS for activities, memberships and rentals in process and Civic Rec for all new transactions), it was not feasible to have a date in time where the total balance and credit transfers could be reconciled with both databases. However, staff have provided all back-up documentation of the manual migration process and completed a random sampling of transactions to back up the validity of the data. Based on the data captured in the manual form, CRS will work with Finance for a final reconciliation. However, with the implementation of Civic Rec, all Asset and Liability accounts have been reconciled each month with Munis, so any future software implementations should have a significantly easier transition in regards to the financial data. Moving forward Civic Rec balance is current and reconciled with MUNIS.	The CRS Department has been working with Finance and the software vendor to reconcile Civic Rec and Munis from the CLASS conversion. It is the goal to have this completed by June 30th so that moving forward, both systems can be periodically reconciled.	High
5	CRS	Program Registration	10/11/2018	Work with the Finance Department to ensure that asset and liability accounts associated with the registration system are reconciled more frequently than annually.	Ongoing	N/A	Concur. CRS will establish an SOP to ensure revenue balances on a monthly basis. SOP will be completed by May 30, 2019	The CRS Department has been working with Finance and the software vendor to reconcile Civic Rec and Munis from the CLASS conversion. It is the goal to have this completed by June 30th so that moving forward, both systems can be periodically reconciled. Once the initial reconciling has occurred, an SOP will be created in conjunction with Finance to determine best practices to reconcile. It is anticipated that the SOP can be completed by August 31, 2019.	Moderate
6	CRS	Program Registration	10/11/2018	Develop and document a Revenue Control Policy that includes, but is not limited to: Timely reconciliation to applicable general ledgers Recording all receipts and receivables in accordance with GAAP	Ongoing	N/A	Concur. CRS agrees that a formal revenue control and management policy for delinquent accounts should be developed as a component of the internal controls over revenue. CRS met with Finance on January 16, 2019 to discuss formalizing an uncollectable/delinquent account policy. Finance Department will work on a draft a policy by the end of March 2019 and CRS will write an SOP for the department by April 30, 2019. CRS staff will receive overview of the SOP by the end of May 2019.	The Revenue Control Policy is still being finalized by Finance. Upon completion, CRS will finalize the SOP that compliments the City's policy on timely reconciliation of applicable general ledgers.	Moderate
7	IT Department	Program Registration	10/11/2018	Update policies and procedures to provide departments with additional guidance for managing cloud computing contracts and change management activities not processed by the IT Department	Ongoing	N/A	Concur. IT Management will update IT SOP 201 as necessary to provide specific guidelines regarding SaaS solution requirements and will make those requirements available on InsideSurprise in the Information Technology Department website by June 30, 2019.	IT has met with Procurement and the appropriate City department to create a draft checklist of items that must be addressed in any new software contract that will be published on the intranet to meet the audit requirement. We have determined we would like to create a boilerplate software agreement that will include all conditions required and will be the starting point of any software contract negotiation. The appropriate City department is developing that language based off the checklist items.	High

Audit Observation Risk Rating

High	Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High risk observations should be implemented to mitigate current gaps in areas 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 potential risk of loss to city assets.
Low	Represents an observation for consideration by management for correction or implementation associated the process being audited. Low risk observations should be implemented to improve efficiency and effectiveness of operations.

Exhibit B
Implemented Audit Recommendations

Count	Division/ Department	Report Title	Report Date	Recommendation	Status as of May 22, 2019	Management Update Comments 2018	Management Update Comments February 10, 2019	Management Update Comments May 22, 2019	Risk Level
1	City Clerk's Office	City Clerk's Public Records Request	8/14/2017	Develop a comprehensive automated training program using Target Solutions to educate City staff on public records requests procedures. The training should incorporate updated records management policies and procedures.	Closed	This is still a work in progress, will finalize once we have an automated system in place. Original estimated completion date: August/September 2018	We are holding our 2nd set-up meeting with IT on the Records Request Program through City Source. Once the program is completely set-up, we will start training staff on how to use the program and add a section into our policy. Extending completion date to: February/March 2019.	This task was completed on April 17, 2019 for the program launch on April 18, 2019. All required staff attended the mandatory training and IT staff created the program instructions that were sent to all users and placed on the City's shared files for easy access.	Low
2	City Clerk's Office	City Clerk's Public Records Request	8/14/2017	Work with the appropriate City staff to establish a precise retention period for City emails. If an extended period is required, initiate the process to obtain approval from the State to update the City's retention schedule. Communicate any changes in the retention period to the IT Department and City staff.	Closed	Working with the appropriate city staff to establish a policy	Working with the appropriate city staff to establish a policy.	This task is completed and contained in the Records Policy dated February 2019.	Moderate
3	City Clerk's Office	City Clerk's Public Records Request	8/14/2017	Establish a time limit policy for holding completed public records requests. The policy should include, but not limited to: • The number of days completed documents are held for pickup before they are destroyed • Requiring the completion of new public records request if pickup attempts are made after documents are destroyed • Fees collected for documents destroyed after holding period should not be refunded, as service was performed • Updating the Form to reflect the new policy	Closed	Extension of completion date to August/September 2018.	This will also be included in the Records Request Policy, and completion will be extended to February/March 2019.	This is covered under the Records Policy following Arizona State Library and Archives under Records Retention policies.	Low
4	City Clerk's Office	City Clerk's Public Records Request	8/14/2017	Continue to work with the IT Department to assess the potential of automating tracking public records request utilizing current City applications, such as SharePoint, Council agenda software, or legal software. The selected software should allow applicable City staff view privileges to check the status of requests in an attempt to eliminate duplication of staff efforts.	Closed	This has been a work in progress in conjunction with IT staff. We visited the City of Phoenix March 9, 2018 to view the SharePoint Program. They shared their coding with us. In the meantime we found out that through Civic Plus, the City's Website, their may be a program already in place that is called Citizens Request Tracker. We are scheduled for a Demo on Tuesday, May 8th with IT staff. If this is adequate, we will work immediately to tailor to our needs and implement as soon as possible.	Getting ready to launch the program City Source, training this week. Estimated completion extended to February/March 2019.	This task is officially completed - April 18, 2019. It is fulfilling our goal to have a fully automated records request system.	Moderate
5	City Clerk's Office	City Clerk's Public Records Request	8/14/2017	Formalized and document revenue policies and procedures to include, but not limited to: • Establishing when to assess fees • Identifying when and who can authorize fee waivers • Identify documentation required to waive fees	Closed	The original Records Request Policy was created by the appropriate City staff. I met with the applicable City staff on this issue, once we have established an automated system, we will update the policy to include this information. I have not received a legal opinion on the authority to waive fees at this time. I also discussed this issue with the Finance Department to create language in the policy for collecting fees.	I have been assigned an attorney in the Legal Dept., to assist with writing a policy that will contain the Records Request Policy and Records Management in one. I submitted a draft in December, the document has come back to me with revisions. Estimated completion time is February/March 2019. The Legal Dept., is aware that the majority of the requests through the automated system will be electronic. We are in the process of reviewing what type of requests we will be allowed to charge a fee for according to State Law. This will also be included in the policy. Estimated time of completion will be February/March 2019.	This is included in the records policy dated February 2019. This task is completed. This is included in the records policy dated February 2019. This task is completed.	Moderate
6	CRS	Program Registration	10/11/2018	Develop and document a Revenue Control Policy that includes, but is not limited to: Timely reconciliation to applicable general ledgers Recording all receipts and receivables in accordance with GAAP	Closed	N/A	Concur. CRS agrees that a formal revenue control and management policy for delinquent accounts should be developed as a component of the internal controls over revenue. CRS met with Finance on January 16, 2019 to discuss formalizing an uncollectable/delinquent account policy. Finance Department will work on a draft a policy by the end of March 2019 and CRS will write an SOP for the department by April 30, 2019. CRS staff will receive overview of the SOP by the end of May 2019.	The Revenue Control Policy is still being finalized by Finance. Upon completion, CRS will finalize the SOP that compliments the City's policy on timely reconciliation of applicable general ledgers.	Moderate
7	CRS	Program Registration	10/11/2018	Perform a secondary review on manual tracking procedures to identify errors and discrepancies including, but not limited to: Review of each DES invoice before distribution to DES Quarterly review of a number of youth subsidy registrations applied to each household account	Closed	N/A	Concur. The Recreation Manager will provide a secondary review of DES invoice before distribution to DES. The Youth Subsidy policy has been updated to remove the limit of two registrations. There is already a control in place in the software that will not allow a participant to exceed the maximum dollar amount of $75. Fiscal Support Specialist will review youth subsidy registration quarterly. CRS management will update the Standard Operating Procedures (SOP) on both of these processes by April 30, 2019 to include reviews.	The Recreation Coordinator will prepare the billing based on attendance and the Recreation Manager will provide a secondary review on invoices before distribution to DES. The scholarship policy has been updated to reflect a quarterly audit of the program.	Moderate

Audit Observation Risk Rating

High	Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High risk observations should be implemented to mitigate current gaps in areas 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 potential risk of loss to city assets.
Low	Represents an observation for consideration by management for correction or implementation associated the process being audited. Low risk observations should be implemented to improve efficiency and effectiveness of operations.

Count	Division/ Department	Report Title	Report Date	Recommendation	Status as of May 22, 2019	Management Update Comments 2018	Management Update Comments February 10, 2019	Management Update Comments May 22, 2019	Risk Level
8	CRS	Program Registration	10/11/2018	Coordinate with the Human Resources Department to define and clarify the intent of the employee discount program and outline eligibility of employee family members including spouses, parents, or extended family (e.g., nieces, grandchildren). CRS management should formally define and document updated procedures, if applicable, to include, but not be limited to the following: Defining eligible household members Detailing procedures for front desk personnel to register employee household members	Closed	N/A	Concur. CRS staff met with the Human Resources Department on January 23, 2019 to define and clarify the intent of the employee discount program and outline eligibility of employee family members. HR confirmed that the intent of the program is to include spouses. CRS will formally define and document procedures in an SOP to define eligible household members and detail procedures for front desk personnel to register employee household members by April 30, 2019. Language will be added to be able to address dynamic family situations. Staff will also update information and frequently asked questions and update on city intranet by April 30th as well.	The SOP on the employee discount program has been updated to define eligibility and procedures. The FAQ's for the program listed on the intranet have also been updated. Additionally this information has been added to New Employee Orientation presentation.	Moderate
9	CRS	Program Registration	10/11/2018	Enhance new hire employee training and refresh all existing employees on procedures and eligibility requirements for employee discounts. Communication should include, but is not limited to: Employees should not apply employee discounts to accounts without the employee discount flag, as no eligibility verification is required at the time of registration. Only current (not prior) employees and eligible household members (not extended family) are eligible for discount registration	Closed	N/A	Concur. CRS will update SOP and include in new employee orientation and provide a refresher to current staff by May 31, 2019.	The SOP was updated and shared with staff in March. A review of the policy was also included in cashier training on May 23, 2019 and will be included along with Cash Handling training during new employee orientation for part-time staff.	Moderate
10	CRS	Program Registration	10/11/2018	Consider the feasibility of utilizing systematic controls within CivicRec to assist in accurately applying employee discount including: Continue with vendor request for system enhancements to only allow employee discounts posted to accounts with the employee discount household flag. Consider applying employee discount flags to each eligible individual in the household account instead of the overall household account.	Closed	N/A	Concur. CRS has requested this enhancement to CivicRec on August 28, 2018.	The application of this option has not been implemented by Civic Rec as of May 20, 2019. Staff however will continue to monitor utilization of the discounts to ensure compliance of the policy.	Moderate
11	CRS	Program Registration	10/11/2018	Implement quarterly review and monitoring procedures around employee discounts to ensure that: Terminated employees have employee discount flag removed from their household account timely. Employee discounts are not provided to any non-employee households.	Closed	N/A	Concur. CRS will update SOP to include quarterly review and monitoring procedures by February 28, 2019.	The Employee Discount Program SOP has been updated to include quarterly monitoring procedures.	Moderate
12	CRS	Program Registration	10/11/2018	Ensure staff review requirements of DES contract and comply with all contract terms and DES inquiries promptly. A succession plan should be established to ensure smooth and uninterrupted communication is in place with DES and the City.	Closed	N/A	Concur. CRS staff intends to comply with Arizona Department of Economic Security contract. Staff understands that there is a benefit to those families that need assistance paying for childcare. The City of Surprise CRS Dept. offers several programs that are licensed daycare programs with the Department of Health Services. Participants that qualify may receive subsidy for the daycare through a child care provider agreement with Department of Economic Security. Over the years, CRS staff has had challenges communicating and receiving timely payments from DES. There is frequent turnover in contact staff at DES and therefore it's been difficult to follow up on outstanding issues. The contract expiration in June 2018 was a separate issue from receiving payments. DES mailed notification directly to Countryside Recreation Center and therefore; staff never received the notification. Once CRS staff became aware of the issue; they immediately resolved the issue and the contract was renewed. In the future; Recreation Manager is prepared to escalate communication if needed. Additionally, as of December 31, 2018 CRS promoted internal staff to a part time administrative specialist dedicated to payment plans and collection of DES revenue. Additionally, multiple staff will now be trained in DES billing so that if there is staff turnover; the division will be prepared to take over the duties if needed. To date; CRS has received all DES payments for summer camp attendees. Fall and winter break camps are still outstanding as it is a lengthy process to receive payments from DES.	CRS staff have been diligent in ensuring compliance with the DES contract. All DES paperwork is being routed through the Recreation Manager to be entered into our tracking system and then routed to the Recreation Coordinator. The Recreation Coordinator will then give the sign in/out sheets and billing form to the Admin Tech to complete. Once completed, all forms will be submitted to the Recreation Manager to do a final check and send to DES for payment. The CRS Department also changed the fee structure for camps to better accommodate DES supported programs. Previous DES participants were primarily registered to attend the program weekly and were charged the weekly rate; however DES only reimbursed on a daily rate based on attendance. Due to how the reimbursements were done, the fees required adjusting which accounted for several of the past due DES balances in CLASS. By going to a daily rate with all camps, fees will no longer need to be modified. Families were also notified during the registration process that they are fully responsible for all fees up to receiving an approval from DES. During previous years, we did not require payment if DES was in a pending status, but we are now requiring full payment until DES has been fully approved. The CRS Department also changed procedures that DES participants need to pay copays weekly rather than being billed at the end of the program. These changes along with having dedicated resources to monitor the payments and attendance will greatly minimize the potential for any outstanding balances associated with DES eligible programs.	High

Audit Observation Risk Rating

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

Exhibit B
Implemented Audit Recommendations

Count	Division/ Department	Report Title	Report Date	Recommendation	Status as of May 22, 2019	Management Update Comments 2018	Management Update Comments February 10, 2019	Management Update Comments May 22, 2019	Risk Level
13	CRS	Program Registration	10/11/2018	Ensure that the vendor develops a sandbox to allow staff testing of application upgrades and system functionalities.	Closed	N/A	Concur. CRS will continue to work closely with IT on future migration to ensure vendor develops a test atmosphere.	N/A	High
14	CRS	Program Registration	10/11/2018	Ensure all test data is deleted from the live production database. Documentation of deleted data should be developed and maintained as part of the project records.	Closed	N/A	Concur. Ideally, the test will occur in a test atmosphere, and there will be no need to delete data from live production. Agree that documentation of deleted data should be developed and maintained in project record.	N/A	High
15	CRS	Program Registration	10/12/2018	At least annually, perform a user access review of all user and role combinations in CivicRec to identify and remove any conflicting access roles, terminated or transferred employees, or unnecessary access.	Closed	N/A	Concur. CRS immediately corrected conflicting access roles for senior management levels. During system implementation, additional access was added to staff until system functionality and permissions were established. This has been since updated and the SOP will be revised by April 30, 2019. Due to limitations of the software, additional access was added for five front desk staff members specific for camp registration. CRS has requested an enhancement to CivicRec to improve this functionality. An enhancement has already been added so that once an employee resigns or separates service, when IT turns off access to the network, the employee no longer has access to CivicRec.	N/A	Moderate
16	CRS	Program Registration	10/13/2018	Ensure that all future projects include the appropriate subject matter experts from the initial selection of a vendor, implementation, data migration, testing, and for a brief period after the go-live date. Subject matter experts should review and sign off on areas related to their specific area of expertise to ensure best practices are imitated throughout the project.	Closed		Concur. CRS staff concurs that subject matter experts sign off on areas related to their specific area of expertise to ensure best practices are imitated throughout the project. Subject matter experts in IT, Finance (Accounting, Procurement), Human Services and Community Vitality (HSCV) and Community and Recreation Services (CRS) were involved in developing the RFP, interviewing and selecting a qualified software company, Finance and IT were involved in Pre-implementation providing guidance on security of financial information, testing of credit card payments and setting up security levels for users. Finance was not involved in the data migration as it required a manual transfer of the data by CRS staff. However, upon completion of the data migration of balances and credits, Finance was sent a final list of all adjustments made. After the go-live date, CRS worked with Finance to reconcile the applicable CRS accounts receivable ledger accounts as part of the annual general ledger reconciliation process. Communications and webmaster were also involved in release of information to public and ensuring smooth transition onto the city website. IT representative attended all meetings with Civic Rec including planning and system training/entry of information and post implementation. Finance was included in system training as well. CRS had been notified in 2014 that the CLASS "end of life" would be approaching soon. CRS requested funding for the software replacement during the FY15 budget process; however the package wasn't funded that year. The package was requested again for the FY16 budget process and again wasn't funded. However savings were realized in the FY17 budget for the Tyler implementation, so CRS was finally able to move forward with the RFP process. In November 2017, CRS replaced its recreation registration system (CLASS) with a cloud based system (Civic Rec). CLASS was implemented in 2005 and had reached end of life and would no longer be supported by Active Net. It was critical to select a company with software that met the requirements for financial accounting and PCI compliance as well as functional for CRS and HSCV to be able to accept registrations for activities, classes, leagues, facility rentals, point of sale items both in person and online for customers. This had to be complete prior to mid November 2017. In preparation to select a new vendor CRS began working on language and scope for the RFP process mid-2016. This scope was reviewed multiple times by multiple staff in IT, HSCV and Finance to develop a clear scope and requirements for the new software. The RFP went out early 2017 and a panel of staff including Finance, CRS, HSCV and IT ranked the various companies that responded to the RFP. In April 2017, two companies were selected to demo and the selection panel of staff that included IT, Finance, HSCV and CRS. Once a selection was made; CRS, HSCV, IT and Finance attended planning meetings with Civic Rec to go over pre implementation requirements. CRS communicated and involved multiple departments in the selection and implementation process.	N/A	Low
17	Finance Department	Procurement Purchasing Card - Continuous Review	2/5/2019	At least annually, the Finance Department should update P-Card records in Munis to allow for accurate record-keeping and monitoring. Updates to Munis should include, but are not limited to: a. Deactivating cards which are expired or no longer used. b. Updating Munis credit limits to align with authorized changes and BBVA recorded limits.	Closed	Finance Director: "We concur with the recommendation and will begin to update the MUNIS Purchase Card records immediately to match department head approvals and the BBVA records. We will also immediately begin deactivating any cards which are expired or no longer used. We will complete our review of the current P-Cards by February 28, 2019 and work to continuously update records on a going forward basis."	All former p-cards have been deactivated within Munis and procedures have been established to update P-Card records and credit limits within Munis. Updating of the old P-Card records and credit limits was completed as of February 28, 2019. The accounts payable team runs the necessary reports each month to ensure any lingering charges for employees that have been terminated are loaded into the system for reconciliation by the appropriate department.	N/A	Moderate

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Count	Division/ Department	Report Title	Report Date	Recommendation	Status as of May 22, 2019	2018 Management Update Comments April 6, 2018	Management Update Comments February 10, 2019	Management Update Comments May 22, 2019	Risk Level
1	City Clerk's Office	City Clerk's Public Records Request	8/14/2017	Develop and implement controls to enhance current procedures for managing the public records requests Excel spreadsheet. The controls should include, but not limited to: • Periodically reviewing the spreadsheet for accuracy, completeness, and training opportunities • Reconciling the fees column of the spreadsheet to the general ledger to ensure all fees assessed were correctly deposited promptly • Coordinate efforts with other departments when working on the same public records requests to • Use Excel Data Validation function to format spreadsheet and eliminate keying errors	Not Implemented-Change in procedures	This is still a work in progress. Right now, staff is reviewing the spreadsheet every other week to follow up with requestors and to balance the amounts due and received. Once implemented, the automated request tracking program will have monitoring capability, therefore the Excel spreadsheet will be eliminated. The automated system will also eliminate the issue of duplications between departments. Extend completion date to December 2018.	Once City Source is launched, the Excel spreadsheet will be eliminated. Extending completion to February/March 2019. In the meantime, these tasks are being reviewed every other week, and old requests are being reviewed with staff from Finance to verify if payment was received.	This step is no longer required with the automated records request program through City Source. This task completed.	Moderate

Audit Observation Risk Rating

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Audit Committee

June 19, 2019
3:30 PM

SURPRISE
ARIZONA

Audit Committee

Audit Projects Update:

- ✓ Quarterly Audit Recommendation Status Report
- ✓ Payroll Error Review Memo
- ✓ Accounts Payable Continuous Review Report

Audit Committee

Quarterly Audit Recommendation Status Report

25 Recommendations:

- 17 – FY2018-2019
- 8 – FY2017-2018
  - 17 (68%) Implemented
  - 7 (28%) Ongoing
  - 1 (4%) No longer applicable – New software implementation

Audit Committee

Payroll Error Review Memo

Audit Objectives:
Identify root cause of $5,000 payroll error resulting from an erroneous pay rate change not identified by HR.

Conclusion:
Based on inquiry with HR Department and data analysis of pay rate changes during FY19, IA determined the payroll error was an isolated incident due to the unusual situation of filling a full-time position with a part-time employee. Recommendations were made to reduce the risk of future recurrence.

Audit Committee

Payroll Error Review Memo – Cont.

Recommendations:

- Review pay rate changes during each biweekly payroll processing
- Define approval and documentation required for payroll changes made outside of Munis workflow approval process
- Consider feasibility of increased automated employee notification when changes are made

Audit Committee

Accounts Payable (A/P) Continuous Review

Audit Objectives:
Identify potential A/P anomalies and noncompliance with city procurement policy

Primary Focus:

- Duplicate Payments
- Discounts
- Dollar Thresholds – Invoices and Purchase Orders
- Conflicts of Interest

Audit Committee

Accounts Payable (A/P) Continuous Review – Cont.

Recommendations:

- Limit access to personal identifiable information
- Periodic review of vendor Masterfile and A/P transactions
  - Fuzzy matching
- Develop policies and procedures

Audit Committee

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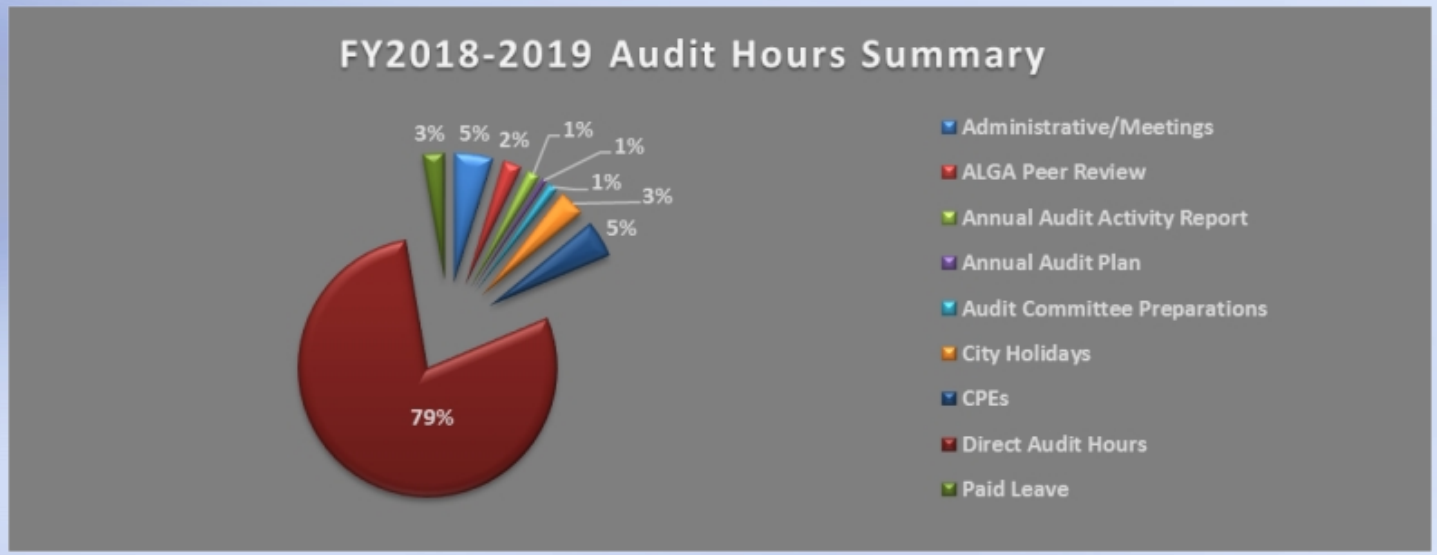
ARIZONA

FY2018-2019 Annual Internal Audit Activity Report



Audit Committee

FY2018-2019 Annual Internal Audit Activity Report – Cont.

Budgeted Audit Hours	Actual Allocated Audit Hours
• 82% Direct Hours	• 79% Direct Hours
• 18% Indirect Hours	• 21% Indirect Hours

Audit Committee

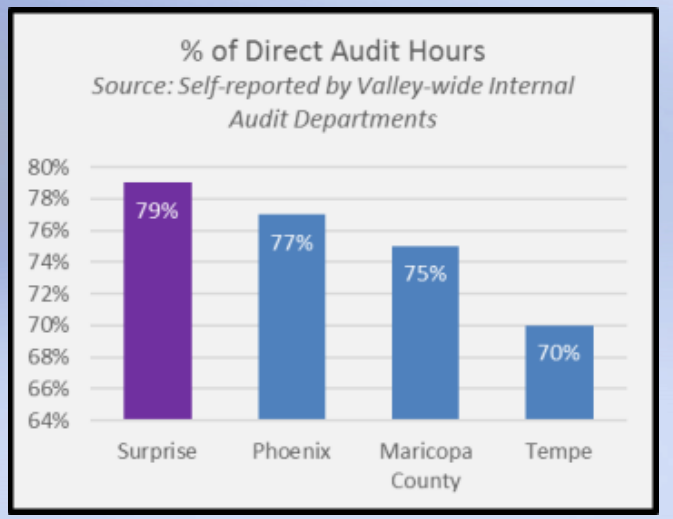
FY2018-2019 Annual Internal Audit Activity Report – Cont.

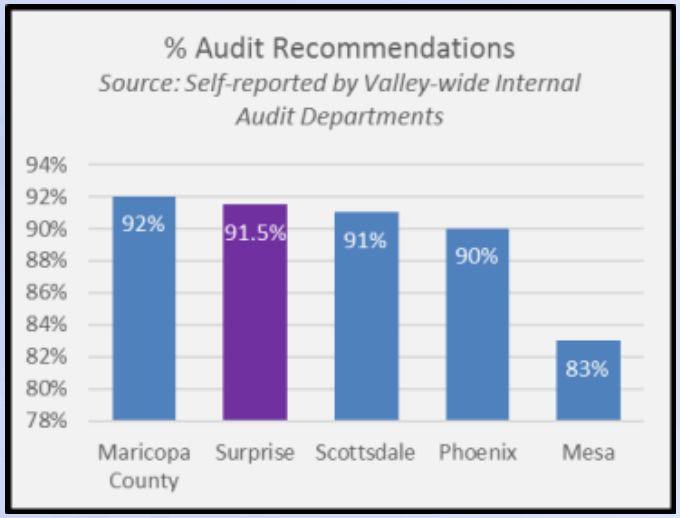
Number of Projects:

- Seven projects
  - ✓ Six completed
  - ✓ One pending
- Increased annual status report to quarterly reporting
- Three projects carried forward to FY2019-2020

Audit Committee

FY2018-2019 Annual Internal Audit Activity Report – Cont.





Audit Committee

FY2018-2019 Annual Internal Audit Activity Report – Cont.

Audit Horizons FY2019-2020:

- **Leveraging Technology**
  - Expanding use of IDEA – Networking with User Groups
  - Automating Recommendation Tracking
- **Challenges**
  - Rapidly Changing Operating Environment

Audit Committee

FY2019-2020 Draft Annual Audit Plan

81% Direct Available Audit Hours

- Seven New Audits
- Three Carryover Projects
- Five to Seven High Risk Transactions Memos

19% Indirect Available Audit Hours

- ALGA Peer Review Participation
- Holiday/Paid Leave
- Annual reporting

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Other Business and Future Agenda Items

Audit Committee

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Executive Session

Audit Committee

June 19, 2019
3:30 PM

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: June 19, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person: Connie Bowers
District: Citywide

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

Agenda Wording:
Discussion and action pertaining to the Payroll Error Review Memo.

Motion:
I move to approve and distribute the Payroll Error Review Memo.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2018-2019 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

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

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

Financial Impact:
This item relates to work performed as part of the FY2018-2019 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

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

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. Memo - Payroll Error Review FINAL

SURPRISE
ARIZONA

Date: May 7, 2019
To: Mark Schott, Assistant City Manager
CC: Lisa Angelini, Human Resources Director
From: Carol Holley, Senior Internal Auditor; Alison Matthees, Internal Auditor
RE: Payroll Error – Human Resources Department

Background

On April 23rd, 2019, Internal Audit noted a payroll error on the Internal Auditor's personal paycheck. The employee's hourly pay rate had been doubled effective as of her sixth paycheck (March 15th) resulting in an overpayment of over $5,000 before the error was identified by the employee and brought to the attention of the Human Resources (HR) Department. Once identified by the employee, the Payroll Supervisor established a repayment plan by reducing the employee's future paychecks as detailed in the City of Surprise *Employee Policy Manual Section 4.11 – Compensation Errors / Corrections* (EPM). Internal Audit met with the Payroll Supervisor and HR Information Systems (HRIS) Specialist to identify the root cause and performed limited testing of other pay rate changes within Munis over the last fiscal year to identify other unusual instances.

Procedures Performed

Inquiry and communication with Human Resources management

Internal Audit discussed the error with the Payroll Supervisor and HRIS Specialist on April 24th, 2019 along with numerous email communications over the next three weeks. Utilizing an archived test environment from before the change was made, the HRIS Specialist was able to recreate the unusual scenario that caused the error. See the "Root Cause" section below for details.

Munis review of payroll change audit records

Internal Audit reviewed the Munis Audit Log for FY2019 to identify manual changes to hourly pay rates. Internal Audit identified approximately 327 adjustments made to part-time employee's hourly rates in FY2019 (July 1st, 2018 – April 24th, 2019), and performed the following procedures:

- 312 part-time employee rate changes were related to the state-mandated minimum wage update effective December 30th, 2018 and were updated via import on January 7th, 2019. Internal Audit obtained descriptive process steps and emails for the change.

- Internal Audit reviewed 100% of the remaining 15 changes for reasonableness and accuracy and noted no additional errors. The changes noted included:
    - 11 changes made by HR personnel through the Munis change process where changes are made in a pending environment and approved using pre-determined workflows before being made live.
    - 3 manual non-workflow changes made related to the under filling of the Internal Audit position – one upon hire of the employee, one which incidentally caused the error, then the final error correction
    - 1 additional manual adjustment made via a Munis import. This change was made to a terminated employee, though no employee pay was impacted. Supporting documentation and approval for the change were not retained. Refer to Recommendation B below for suggested action.

Root Cause

In March 2019, HR identified an error in the number of hours per week recorded in Munis for approximately 10 part-time employees. This error was not in the hours the employees recorded but in back-end Munis calculation hours which should be recorded as 40 hours per period for part-time employees instead of 80. This error did not impact employee pay, but was corrected for reporting purposes. With email authorization from the HR Manager, the HRIS Specialist modified the hours from 80 per pay period to 40 per pay period manually within the salary history portion of Munis without incident for 9 of the 10 part-time employees.

For the Internal Auditor position, the actual position is coded (Munis Calc Code) as a full-time position, though the position was, at the time, being under-filled by a part-time employee. Under filling a full-time position with a part-time employee is a very infrequent occurrence, so typically the employee and job coding would match. In this rare instance, though the employee was coded as part-time, the position was not, so when the hours were halved, the Calc Code for the position automatically doubled the hourly rate in Munis to maintain the expected (full-time) salary per pay period. This doubled hourly rate was then used to calculate pay when the employee submitted timecards resulting in doubled payment to the employee.

This change was not identified by HR for two reasons:

1) The hours change was made outside the Munis Pending / Workflow process and was not reviewed by another individual independent of the process after being entered into the system.
2) There is not currently a step in the payroll process to detect significant, material, or unusual changes between pay periods.

Recommendations

HR Management should:

A. Implement a review of pay rates during each biweekly payroll to identify any erroneous changes impacting employee pay until a permanent payroll changes report review is implemented. For more details on the implementation of a payroll changes report, refer to the forthcoming Benefits and Enrollment Audit Report.

B. Define and document procedures for making changes to the employee salary records in Munis which are currently made on an ad hoc basis outside of Munis workflows. The HR Department should determine which of the following procedures is most efficient and document the processes to be utilized:

    a. For appropriate change management related to payroll, the process for making changes outside of Munis workflow authorization should include, at a minimum, the following steps:

        i. Documentation of authorization to make change
        ii. Review of changes after being made in Munis for accuracy, agreement to supporting documentation, and reasonableness of impact on payroll by an individual independent of the process
        iii. Retention of appropriate supporting documentation

    b. Alternatively, make any changes to the employee salary record utilizing the Munis workflow approval process; meaning changes are made in a pending environment and then approved by appropriate personnel before being made active. Appropriate authorization and segregation of duties between the change-maker and review should be in place and controlled through systematic access limitations.

C. Consider the feasibility of utilizing the employee notification program within Munis to send an automated message to an employee if a change was made to key fields, like pay rate, in their employee record. The notification text should align with the EPM which states that if an employee believes the change was made in error, they should report to their supervisor or HR.

Conclusion

Based in inquiry and testing performed, the payroll error appears to be an isolated incident. The HR Department should implement mitigating preventative and detective controls to reduce the risk of future recurrence and verify any pay rate changes are thoroughly reviewed. In FY2020, Internal Audit will work to develop an automated continuous review of payroll to identify changes to gross pay and pay rates outside designated thresholds.

Management Response

A. Concur. The Payroll Supervisor has identified a process to review all employee pay rates in the payroll and compare those pay rates to the prior payroll. If there is a change to an employee's pay rate, the Payroll Supervisor is able to do further research in Munis to determine why the rate has changed. This allows the Payroll Supervisor an additional opportunity to audit pay rates and changes to ensure they are correct. This comparison process is done prior to the completion of the payroll so any errors can be corrected before payroll is processed and before employee pay is affected. Regarding a payroll changes report, we will continue to collaborate with the rest of the HR team and the IT team to determine how we can accomplish this in Munis. Estimated completion date for payroll changes report is contingent on the review of the Benefits and Enrollment Audit Report, but we will estimate September 31, 2019.
B. Concur. We recognize that making changes in Munis outside of the workflow process is not ideal, but it can be a business necessity given the timing of a change, the impact, etc. While it is impossible to predict all of the scenarios in which we may make changes outside of workflow, we will create an SOP to outline a prudent process when these changes occur. The SOP will include guidance on appropriate documentation and authorization to make the change, independent review of the change, and retention of supporting documentation. Estimated completion of SOP is June 14, 2019.
C. Concur. The HRIS Analyst and Payroll Supervisor will conduct research and testing on the Munis notification feature to determine if and/or how this can add value to our data entry processes. Estimated completion is September 31, 2019.

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: June 19, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person: Connie Bowers
District: Citywide

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

Agenda Wording:
Discussion and action pertaining to the Accounts Payable Continuous Review Report.

Motion:
I move to approve and distribute the Accounts Payable Continuous Review Report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2018-2019 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

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

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

Financial Impact:
This item relates to work performed as part of the FY2018-2019 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. AP Monitoring Report

BACKGROUND:

As part of the approved FY2019 Annual Audit Plan, Internal Audit (IA) developed continuous review procedures around high risk areas including accounts payable (A/P) transactions.

The City of Surprise (City) Munis A/P application has controls in place to alert users of potential duplicate invoices based on the invoice number and date. This control can be overridden by users changing the invoice date and number.

For the period of July 01, 2018 to March 25, 2019, 15,314 invoices totaling $77.5 million (not including procurement card activity) were processed for payment by City staff. The average net payment was $5,060.

OBJECTIVE:

IA designed tests using IDEA audit software to examine selected City A/P transactions. The objective of the analytics was to identify possible A/P invoice duplicate payments, conflicts of interest, missed discounts, noncompliance with PO dollar threshold, duplicate vendors, fraud indicators, and alignment of activity to City procurement policy.

SCOPE

IA obtained and reviewed citywide A/P transaction data reflected in Munis for July 01, 2018 to March 25, 2019 (not including procurement card activity.)

DATA RELIABILITY

The data utilized for the work performed was obtained directly from Munis, the City's financial system of record. Munis data reliability is verified annually via the audit of the Munis financial reports and the Comprehensive Annual Financial Report (CAFR) performed by the City's external auditor. IA determined the data utilized is sufficiently reliable given its intended use.

NON-AUDIT SERVICES

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

SURPRISE
ARIZONA

INTERNAL AUDIT

Accounts Payable Continuous Review Program — April 15, 2019

Executive Summary:

IA periodically reviews high risk reoccurring City transactions for irregularities and compliance with City policies and procedures. High risk transactions for this report are viewed as transactions or processes with the potential of having a significant impact or high likelihood of loss or fraud related to City assets if a gap in internal controls occurs.

In April 2019, IA used IDEA audit software to review A/P transactions for discrepancies, trend anomalies, and compliance with City procurement policies and procedures. Audit analytics were performed on 100% of the population. (See results on page 2.)

Based on the sample population of A/P transactions reviewed and discussions with staff, IA noted several best practices that were implemented by Finance to reduce errors, fraud, and to enforce adequate segregation of duties:

- Automating the A/P process
- Restricting who can make changes to Munis Vendor Master-File and requiring a secondary review of changes
- Requiring staff to link invoices to a purchase order (PO) and/or a contract number in Munis when applicable
- Using Munis electronic workflow process to approve A/P transactions

Finance staff has worked to implement internal controls to reduce the risk to City assets. The review demonstrated the opportunity to implement additional procedures to compliment the current internal controls where errors were identified and the need for additional confidentiality training. (See pages 4-8 for finding and recommendations.) Tentatively, the FY2020 budget provides funding for a complete City Health Insurance Portability and Accountability Act (HIPAA) assessment.

IA appreciates the time City staff contributed to this review.

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FINDING HIGHLIGHTS:

- Electronic copies of Medical Refund forms stored in Munis A/P module contains personal identifiable information (such as social security numbers, birthdates, medical codes, and patient names) that may present data security concerns
- Three duplicate payments totaling $6,045 were identified as refunds due to the City
- PO and/or contract number are not always updated in Munis to assist with monitoring the authorized spending levels
- POs are not always obtained as required by City procurement policy

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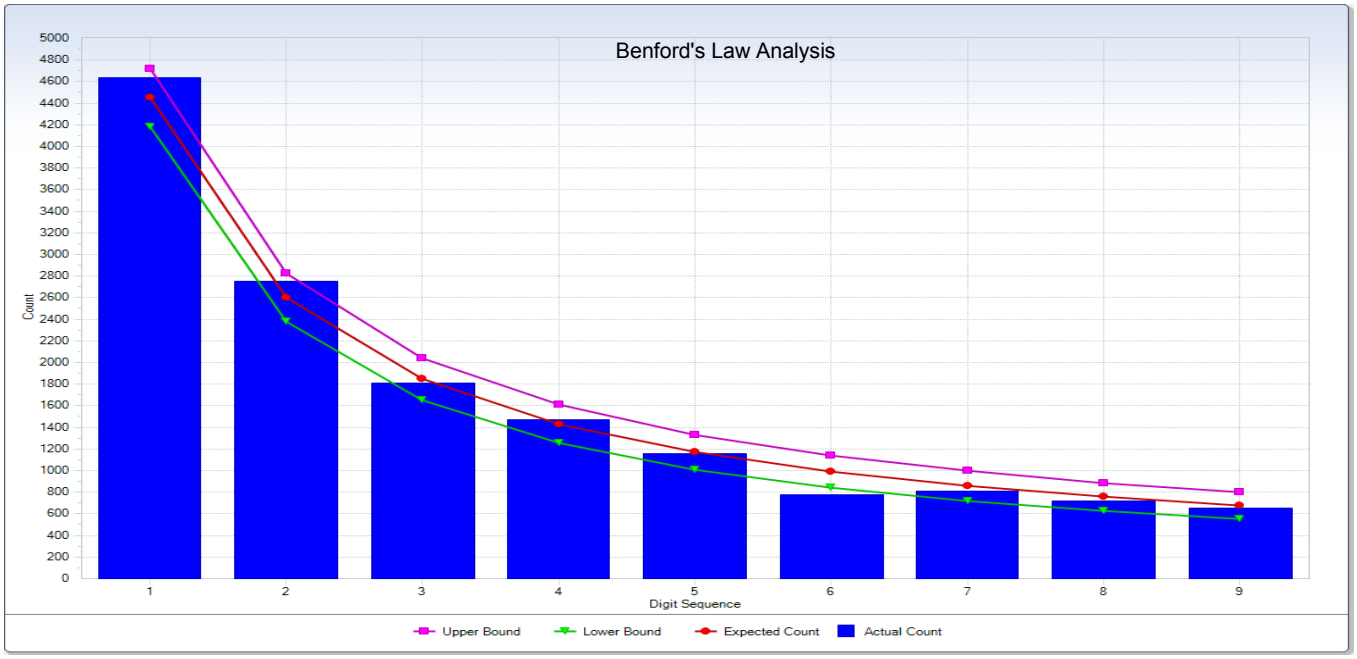
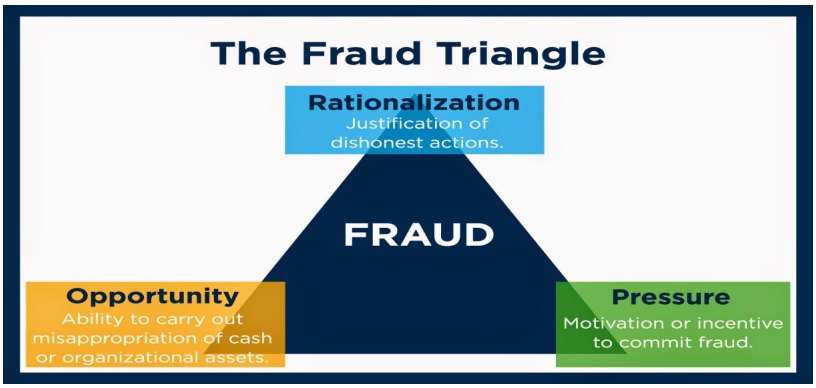
Benford's Law Fraud Indicators

Benford's Law is known as the first-digit law. It is an observation about the frequency distribution of leading digits in a set of numerical data. It is used to analyze financial data and identify red flags. Benford's Law is used to recognize the probability of highly likely or highly unlikely frequencies of numbers in a data set. If the leading digits of the transactions don't follow the expected frequency distribution predicted by Benford's Law, the data may have been manipulated. Benford's Law is used in audits to detect fraud in the disbursements cycle by comparing the actual occurrence of leading digits in disbursements compared to the digits' probability. IDEA auditing software was used to analyze 15,314 records totaling over $77.5 million (not including procurement card transactions) for the period of 07/01/2018 to 3/25/2019 and to develop a Benford's Law distribution curve. The following chart analyzes the first digit in the A/P transactions under review. IA noted the A/P transaction data did materially follow the expected trend. See the frequency distribution chart below.



With the use of data analytics software, IA is able to perform more data analytics in a more timely manner with fewer resources. Although IA did not identify any fraudulent activity in the transactions reviewed, data analytics cannot directly detect fraud. Data analytics is used to identify anomalies that require investigation and verification.

The best deterrent to fraudulent activity is an effective internal control system that is periodically reviewed, monitored, updated, and leads to investigative steps when anomalies appear. There are three primary factors that are often present when fraud is committed: pressure, opportunity, and rationalization. The primary responsibility for the prevention and detection of fraud rests with those charged with governance and management. IA conducts audit activity in accordance with professional standards to obtain reasonable assurance regarding the City's activities. It is a combination of strong internal controls and IA testing of those controls that strengthens the City's internal control environment and deters fraud.



Methodology

IA meet with Finance staff and A/P liaisons from various City departments to discuss A/P and procurement policies and procedures. The following review procedures were completed to identify potential A/P anomalies.

Duplicate Transactions

IDEA audit software was used to identify duplicate vendors and duplicate payments by:

- Comparing invoice numbers, dates, amounts, description and vendor names in various combinations to look for exact matches.

- Fuzzy matching is a technique used in computer-assisted audit procedures to link similar records based on linguistic and statistical methods. Fuzzy matching was used to identify potentially duplicative transactions that were not a 100% match. As an example, fuzzy matching identified the following transactions as duplicate payments although the invoice number is not an exact match:

RECEIVED DATE	ENTRY DATE	VENDOR #	INVOICE NUMBER	DOCUMENT NUMBER	CONTRACT	PURCH ORDER	INVOICE DATE	DUE DATE	NET AMOUNT
02/12/2019	02/14/2019	10,961	IN-0298096	100146	318000137	21900030	01/31/2019	02/28/2019	4,425.00
02/25/2019	02/25/2019	10,961	IN-298096	100803	318000137	21900030	01/31/2019	03/07/2019	4,425.00

Employee Vendors

The Munis Vendor Master FIle was compared to a list of current employees based on the vendor and employee name and address. Exact matching and fuzzy matching procedures were used to identify incidents where employees were established as an A/P vendor in Munis. Fuzzy matching identified 282 matches (267 false positive and 15 positive.) Identified matches were discussed with the applicable departments to ensure compliance with the Employee Policy Manual Section 9.2, Conflict of Interest. After discussing the identified matches with the applicable departments and Finance, no additional review procedures were applied in this area. The City's policy regarding conflict of interest was identified as an opportunity for improvement by the external auditors. Finance is currently working with the applicable staff to address the issue.

Confidential Information

Professional judgement was used to select transactions paid under the vendor referenced as "*NO VENDOR INVOICE NAME FOUND*." The vendor is used in Munis to process citywide one-time vendor A/P payments. For the period reviewed, 1,536 transactions totaling $341,713 were processed under this vendor. (See "Data Security" on page 4 for results.)

Compliance with PO Policy

Transactions were reviewed to determine whether or not a PO was issued and linked in Munis when required by the Procurement Guidelines. Transactions were sorted by invoice amount and summarized by vendor to search for potential split transactions. Multiple payments to the same vendor for $2,499 or greater with an aggregated payment totaling $5,001 or greater was investigated as potential split transactions.

The PO and contract fields in Munis were reviewed to determine whether or not a contract or PO was recorded. A selection of transactions over $5,000 which did not reflect a contract or PO number was researched and discussed with the applicable department A/P liaison. (See pages 6-7 for results.)

Vendor Discounts

The Munis Vendor Master File was queried for vendors set-up with discount terms. Nineteen vendors were identified. The invoices were reviewed to determine if all applicable discounts were taken. (See page 5 for results.)

Criteria	Review Observation	Opportunity	Management Action Plan
Employee Policy Manual 8.7.A.3, - Confidential Information. All employees are responsible for protecting against the unauthorized disclosure of confidential information. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) requires an entity to protect the privacy of individual identifiable health information, including, but limited to social security numbers, birthdates, and medical data.	**FIRE—MEDICAL** Refund Request Forms stored electronically in Munis A/P (Invoice Central) module reflect patients' confidential personal identifiable information (PII) and medical procedural codes. This includes social security numbers, birth dates, and patients' names.	**FIRE—MEDICAL** To ensure compliance with HIPAA and City policies and procedures related to protecting the confidentiality of PII, Fire-Medical staff should: ♦ Work with the Information Technology Department to restrict access to PII stored in Munis ♦ Review HIPAA and City policies and procedures related to PII ♦ Provide HIPAA training as needed to staff, including participating in the pending FY2020 HIPAA assessment, if appropriate.	**FIRE—MEDICAL** HIPAA does allow release of HIPAA protected information as it relates to medical billing needs. Under TPO which is for Treatment, Payment and Operations, PII may be released but it must be kept to the minimum information necessary. SFMD initially redacted the information and the checks were being returned for lack of information. Social Security numbers are used for Medicare and Medicaid accounts but it is currently being phased out by geographic regions across the US. This phase out however, will not take care of historical documents only future refunds. • All Fire staff are HIPAA trained and receive annual updated training via Target Solutions. • When we started in Munis, nobody could access our accounts but now we do have cross departmental accounting and TCM uploads which do raise a concern. • Fire immediately suggest that IT possibly lock down Fire's one time vendor code 99992 or have restricted access to only Fire Administrative Staff and Payables staff. • IT looked into this and then looked into locking down the TCM files and giving restricted administrative access to only staff that need it. This has since been accomplished by IT. • Training documents have been shared with all relevant staff

Duplicate Transactions

Criteria	Review Observation	Opportunity	Management Action Plan
One vendor account should be established and maintained for each A/P vendor in order to decrease the potential of duplicate payments. Any exception to the rule should be documented.	**FINANCE:** Two duplicate vendors were identified. Vendor #10005 was deactivated by Finance on January 4, 2019. Vendor #10280 was deactivated during the IA review. Staff stated that Munis allowed the creation of duplicate vendors during the implementation period of the financial system.	**FINANCE:** Develop a policy and procedure to periodically review the Vendor Master File for duplicate vendors and other potential anomalies. All policies and procedures should be documented and made easily accessible to staff.	**FINANCE:** The Finance Department is developing procedures to quarterly review the Vendor Masterfile to ensure there are no duplicate vendors or other anomalies within the Vendor Masterfile.
Internal monitoring controls should be in place to identify duplicate invoices or payments in a timely manner.	**FINANCE:** Between 7/13/18 to 3/14/19, three duplicated payments totaling $6,045 were identified. One vendor (#10056) was aware of the overpayment and is in the process of issuing a refund. During the IA review, staff initiated procedures to obtain refunds from two vendors (#10961 and #13873.)	**FINANCE:** Work with the applicable City staff to ensure that identified refunds are received. Develop periodic procedures to review A/P transactions for duplicate payments. The procedure may include such step as utilizing Excel "Fuzzy Matching" functionality.	**FINANCE:** The Finance Department will strengthen its review procedures to identify any duplicate payments to ensure departments have properly entered invoices into Munis invoice entry by comparing the backup documentation in Tyler Content Manager to the invoice entry screen. However, since this will not catch all duplicate payments, the Finance Department will look into implementing a "Fuzzy Matching" review on a quarterly basis. Further, we will provide additional guidance to departments regarding the proper process for invoice entry and how they can prevent duplicate entry.

Discounts Missed

Criteria	Review Observation	Opportunity	Management Action Plan
Government Finance Officers Association—Best Practice—Policies and Procedures Documentation: **A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency.** **A/P invoices should be processed in a timely manner to all ow staff to take advantage of vendor discounts and to maximum the use of**	**CRS** Vendor #12768 is set up in Munis with discount terms of 10 days 1% or net 30. Two invoices totaling $1,294 were not updated in Munis by the department in a timely manner to take advantage of the 1% discount. The department relied on Finance to process discounts and did not take into consideration the timeliness of adding the invoice to Munis in order to qualify for the discount.	**CRS:** The department should work with Finance to obtain an understanding of the discount process and ensure that applicable staff is appropriately trained. Discount procedures should be documented in the department's accounting procedures. Ensure that A/P invoices are entered in Munis in a timely manner that will allow adequate time to take advantage of all available discounts.	**CRS:** CRS staff have been informed that vendor discounts should be submitted by department staff when invoices are entered into Munis. Discount procedures will be documented in the Department's SOP on accounting procedures by July 31, 2019. CRS staff will ensure A/P invoices are entered into Munis in a timely manner to ensure discounts can be applied if applicable.

Purchase Orders

Criteria	Review Observation	Opportunity	Management Action Plan
Guideline 2301-Emergency Procurement Process **Applicable Procurement Code Section 2-357—Establishes the process for obtaining an emergency PO**	**HUMAN RESOURCES:** On July 25, 2018, a $9,000 payment for an emergency tree installation at a City Park was processed by the department without obtaining the required PO.	**HUMAN RESOURCES:** The department should review Guideline 2301—Emergency Procurement Process and ensure that all appropriate purchases that exceed $5,000 are processed under a PO.	**HUMAN RESOURCES:** Risk Management has reviewed Guideline 2301 and has worked closely with both Procurement and various operations departments to be sure that this process is followed as prescribed on future claims. This particular invoice eclipsed the $5,000 threshold as a direct result of aggregate invoicing, which should have been identified during invoice processing. This particular claim also involved unique payment protocol, as our insurance carrier was supposed to pay the invoices directly on behalf of the City and subsequently charge the City a deductible. Risk Management, in cooperation with Procurement has identified a clear process which requires impacted departments to obtain Emergency Procurement approval, prior to commencement of services, which should systematically identify and prevent future deviations from Procurement Code Section 2-357.
Finance Standard Operating Procedure Procurement Guidelines identifies when a PO is required and identifies the exceptions to the rules.	**PUBLIC WORKS/WATER RESOURCE MANAGEMENT:** Two FY2017 invoices totaling $7,760 for contract #LA14-027 were updated in Munis after the year end cut off. The FY2017 PO for the invoices was closed out. The department processed the payments in FY2018 directly against the contract number without a PO. Nineteen invoices totaling $26,327 were processed and paid in Munis and not linked to the authorized contract or PO to track the cost. Five purchases for roll off liners totaling $10,860 were process and paid in Munis during August 2018 and April 2019 without a PO. Each single purchase fell under the threshold required for a PO. In aggregate, the purchases exceeded the PO	**PUBLIC WORKS/WATER RESOURCE MANAGEMENT:** All applicable purchases that exceed $5,000 should be paid in Munis under an open PO. Departments should work with Finance Procurement staff to ensure payments that are made after the year end cut off are processed under an open PO in the new fiscal year. Any exceptions should be appropriately approved and documented.	**PUBLIC WORKS/WATER RESOURCE MANAGEMENT:** Through the Munis workflow invoices are reviewed at least by department managers, department financial analyst/PW Business Manager, accounts payable and finance manager. In the future if we are instructed to released invoices above $5,000 without a PO we will attach additional backup. As a department we have instructed and work with our managers to follow procurement guidelines which dictate PO's be in place for all goods and services that are above $5,000. We have instructed our managers to have their vendors send invoices to PW Invoices email for processing, that way we should avoid delays in processing. Each purchase was under $5,000. We will work through the procurement process to issue a PO in future.

Purchase Orders

Criteria	Review Observation	Opportunity	Management Action Plan
Finance Standard Operating Procedure Procurement Guidelines identifies when a PO is required and identifies the exceptions to the rules.	**CRS:** Three invoices totaling $6,098 for Vendor #11686 were paid in Munis without updating the appropriate fields with the contract and PO numbers.	**CRS:** To prevent exceeding approved contract spending authorities, staff should ensure, when applicable, payments in Munis are linked to the approved contract and PO numbers.	**CRS:** At the time of the purchase, we did not have a contract open. When I realized the amount we were purchasing from the vendor, I had Procurement establish the contract and then opened a PO to buy landscape equipment and parts as needed. (See PAR #6367.)
Finance Standard Operating Procedure Procurement Guidelines identifies when a PO is required and identifies the exceptions to the rules.	**Fire—Medical** In January 2019, $6,133 of propane was purchased without a contract or PO. Procurement was notified in early March and a contract is now in place for the vendor. Future payments will be issued against future PO's.	**Fire—Medical** To prevent exceeding approved contract spending authorities, staff should ensure, when applicable, payments in Munis are linked to the approved contract and PO numbers.	**Fire—Medical** Just prior to this occurring, a Fiscal housekeeping reminder was sent out to all divisions to remind them of the financially responsible processes relative to fees, procards, POs, and Direct Pays reminding everyone of the serious ramifications of procurement in all aspects of what Surprise Fire-Medical Department (SFMD) does. After this occurred. • An internal audit of all expenses department wide was conducted to ensure no other problems were pending. • A meeting was held with Procurement to ensure SFMD was good with any other PO's for the remainder of the year. • The entire Department received Procurement Update Training and a plan was put in place for future years. • This plan includes putting Air Gas on the Department's annual open PO list. They were not on an open PO list prior because they are a utility (propane) and they get filled as needed (intent) and not monthly like APS or SRP. • In addition, SFMD is going to run a Mega Query quarterly to monitor expenses and encumbrances. • This will be done in addition to our monthly BCR budget report monitoring.

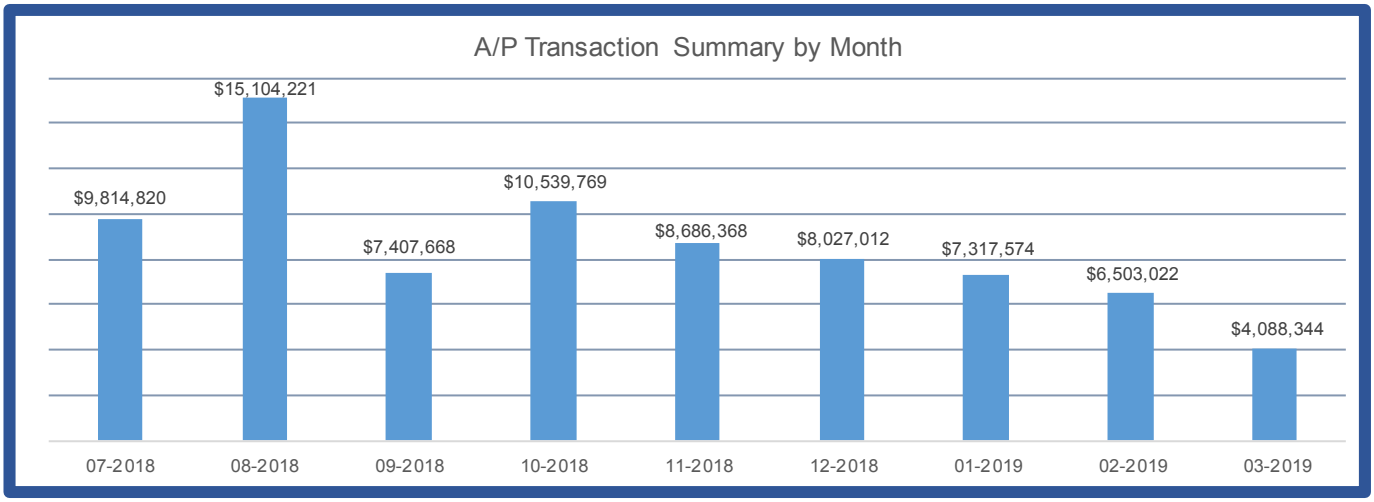
Credit Memos

Criteria	Review Observation	Opportunity	Management Action Plan
Government Finance Officers Association—Best Practice—Policies and Procedures Documentation: **A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency.**	**Finance** Informal procedures are in place for processing outstanding A/P credits. Credits are reviewed during each check run by Finance A/P staff to evaluate where the credit can be taken. Vendor statements are reviewed on a monthly basis. Credits not applied toward an invoice by year end are submitted to the vendor for a refund. A review of the A/P Aging report generated on 4/1/2019 identified 11 credit memos totaling $16,948 : ♦ One credit for $2,782 from 2017 should have had a refund requested at the end of FY2018 ♦ One credit for $2,874 was a duplicate that was previously applied to another invoice. The credit was deleted during the IA review. ♦ One credit for $398 was entered twice in Munis A/P ♦ One credit for $497 was entered on 2/28/2019 and should have been applied against A/P invoices paid on 4/5/2019 ♦ Six credits totaling $6,162 per A/P policy will be applied against an outstanding A/P invoice during the year. If no invoice is received, a refund will be requested at year end. ♦ One credit for $4,235 is related to a duplicate payment	**Finance** Polices and procedures for A/P should be formally documented and made easily accessible for staff. Duplicate credit memos should researched and deleted from the A/P module within thirty business days from the date of the management response.	**Finance** The Finance Department has drafted written procedures to monitor credits that is currently under review. The Finance Department will continue to work with its vendors to request refunds for outstanding credits that relate to prior years and will work to apply any current credits to invoices as they arise. The Finance Department will ensure all duplicate credit memos will be researched and applied or deleted from the accounts payable module by June 14, 2019.

Summary Statistics

Two key performance measures (KPM) calculated by the Munis A/P Module include the "Days to Check" and the "Days to Complete". The average number of "Days to Check" citywide is approximately eight days. This is calculated as the difference between the invoice and check date. The average number of "Days to Complete" citywide is approximately six days. "Days to Complete" is calculated base on the date the invoice was entered and the check date. Finance has identified "Days to Complete" of a week to 10 days as a reasonable timeframe for invoices to be entered and paid. Based on this KPM, invoices are generally paid in a timely manner. The below table identifies the timelines at which individual departments processed A/P transactions for payment:

Department Name	Department No.	*DAYS TO CHECK (Average)	*DAYS TO COMPLETION (Average)
City Attorney's Office	13	8	7
City Clerk's Office	14	7	7
City Court	37	5	4
City Manager Office	12	6	5
Citywide-One Time Vendors	CWA	7	5
Community and Recreation Services	54	11	7
Community Development	42	6	5
Economic Development	41	7	6
Finance	15	5	3
Fire-Medical	34	10	8
Human Resources	16	5	4
Human Services and Community Vitality	51	5	4
Information Technology	17	7	4
Mayor and Council	11	8	5
Police	31	8	7
Public Works	61	10	8
Sports and Tourism	59	6	6
Utility Billing	UTB	4	2
Water Resource Management	71	11	8



*The above data was generated from the Munis Invoice Tracking Report. Procurement card transactions were deleted from the totals as Procurement card data was previously reported on in February 2019.

SPENDING ACTIVITY BY VENDOR:

TOP TEN SPENDING VENDORS (JULY 2018—MARCH 2019)		
VENDOR NAME	RECORD COUNT	TOTAL PAYMENTS
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM	46	$ 8,984,847
BLUECROSS BLUESHIELD OF ARIZONA	35	$ 6,442,882
ARIZONA PUBLIC SERVICE COMPANY	1,111	$ 4,225,911
M. R. TANNER CONSTRUCTION	11	$ 2,866,776
COMPASS BANK	18	$ 2,446,583
COMMONWEALTH LAND TITLE INSURANCE COMPANY	3	$ 2,337,607
NESBITT CONTRACTING	20	$ 2,106,979
MARICOPA COUNTY LIBRARY DISTRICT	20	$ 1,665,602
AZ MUN. RISK RETENTION POOL	11	$ 1,513,054
CENTRAL ARIZONA WATER CONSERVATION DISTRICT	10	$ 1,482,223
TOTAL	1,285	$ 34,072,464

TOP TEN VENDORS BY TRANSACTION COUNT (JULY 2018— MARCH 2019)		
VENDOR NAME	Record Count	Total Payments
NO VENDOR INVOICE NAME FOUND	1,536	$ 341,713
ARIZONA PUBLIC SERVICE COMPANY	1,111	$ 4,225,911
CINTAS CORPORATION	716	$ 49,247
EPCOR WATER	420	$ 199,810
REDBURN TIRE COMPANY	293	$ 201,549
CITY OF EL MIRAGE	263	$ 257,298
SANDS CHEVROLET SURPRISE	250	$ 94,639
GRAINGER	227	$ 116,221
BOUND TREE MEDICAL, LLC	213	$ 147,315
OFFICE DEPOT	204	$ 26,558
TOTAL	5,233	$ 5,660,262

*One time citywide vendors

TOP SPENDING ACTIVITY BY CITY DEPARTMENT

TOP TEN SPENDING CITY DEPARTMENTS (JULY 2018—MARCH 2019)			
DEPARTMENT NAME	DEPT. NO.	RECORD COUNT	TOTAL PAYMENTS
HUMAN RESOURCES	16	753	$ 20,575,693
PUBLIC WORKS	61	4,271	$ 17,326,919
FINANCE	15	1,188	$ 10,495,215
UTILITY BILLING	UTB	2,007	$ 5,672,183
WATER RESOURCE MANAGEMENT	71	1,501	$ 5,657,446
COMMUNITY AND RECREATION SVCS	54	1,401	$ 4,606,933
INFORMATION TECHNOLOGY	17	557	$ 2,801,155
FIRE-MEDICAL	34	856	$ 2,496,425
CITYWIDE ONE-TIME VENDORS	CWA	561	$ 2,357,449
COMMUNITY DEVELOPMENT	42	202	$ 1,514,335
TOTAL		**13,297**	**$ 73,503,754**

TOP TEN CITY DEPARTMENTS BY TRANSACTION COUNT (JULY 2018— MARCH 2019)			
DEPARTMENT NAME	DEPT. NO.	RECORD COUNT	TOTAL PAYMENTS
PUBLIC WORKS	61	4,271	$ 17,326,919
UTILITY BILLING	UTB	2,007	$ 5,672,183
WATER RESOURCE MANAGEMENT	71	1,501	$ 5,657,446
COMMUNITY AND RECREATION SVCS	54	1,401	$ 4,606,933
FINANCE	15	1,188	$ 10,495,215
FIRE-MEDICAL	34	856	$ 2,496,425
HUMAN RESOURCES	16	753	$ 20,575,693
CITY COURT	37	604	$ 958,046
CITYWIDE ONE-TIME VENDORS	CWA	561	$ 2,357,449
INFORMATION TECHNOLOGY	17	557	$ 2,801,155
TOTAL		**13,699**	**$ 72,947,464**

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: June 19, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person: Connie Bowers
District: Citywide

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

Agenda Wording:
Discussion and action pertaining to the FY2018-2019 Annual Internal Audit Activity Report.

Motion:
I move to approve and distribute the FY2018-2019 Annual Audit Activity Report.

Background:
The FY2018-2019 Annual Internal Audit Activity Report (Report) serves to communicate the outcomes of the City of Surprise Internal Audit activity for FY2018-2019 and to demonstrate accountability to the FY2018-2019 Annual Audit Plan approved by the Audit Committee last fiscal year. The Report provides a summary of activities undertaken by the City of Surprise Interal Audit activity during the past fiscal year and outlines goals and challenges for FY2019-2020.

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

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

Financial Impact:
This item relates to work performed as part of the FY2018-2019 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. FY2019 IA Activity Report

SURPRISE
ARIZONA

Annual Internal Audit Activity Report

FY2018-2019

June 19, 2019

Senior Internal Auditor:
Carol Holley, CISA

Internal Auditor:
Alison Matthees, CIA

Table of Contents

INTRODUCTION

The Annual Internal Audit Activity Report (Report) serves to communicate the outcomes of the City of Surprise Internal Audit (IA) activity for FY2018-2019 and to demonstrate accountability to the Annual Audit Plan. The Report provides a summary of activities undertaken by the City of Surprise IA during the past fiscal year and outlines goals and challenges for FY2019-2020.

HISTORY

The City of Surprise (Surprise) IA function was established in November 2015 as an independent, objective assurance and consulting method to assess Surprise operational controls, governance, and risk management processes. Surprise IA reported functionally to the Audit Committee and administratively to the City Manager from November 2015 to November 16, 2018. As of November 17, 2018, Surprise IA reports administratively to the Assistant City Manager. The dual reporting structure is designed to strengthen the independence of Surprise IA and audit activity.

In 2015, policies and procedures were developed and documented to foster consistency in audit engagements and to serve as a training tool for future IA staff members. In June 2019, changes were made to the Surprise IA Manual effective July 1, 2019 to comply with the 2018 Generally Accepted Government Auditing Standards (GAGAS) updates. Surprise IA's authority to perform audit activity as required by GAGAS was granted by Ordinance #2016-26, adopted by the Mayor and City Council on September 6, 2016.

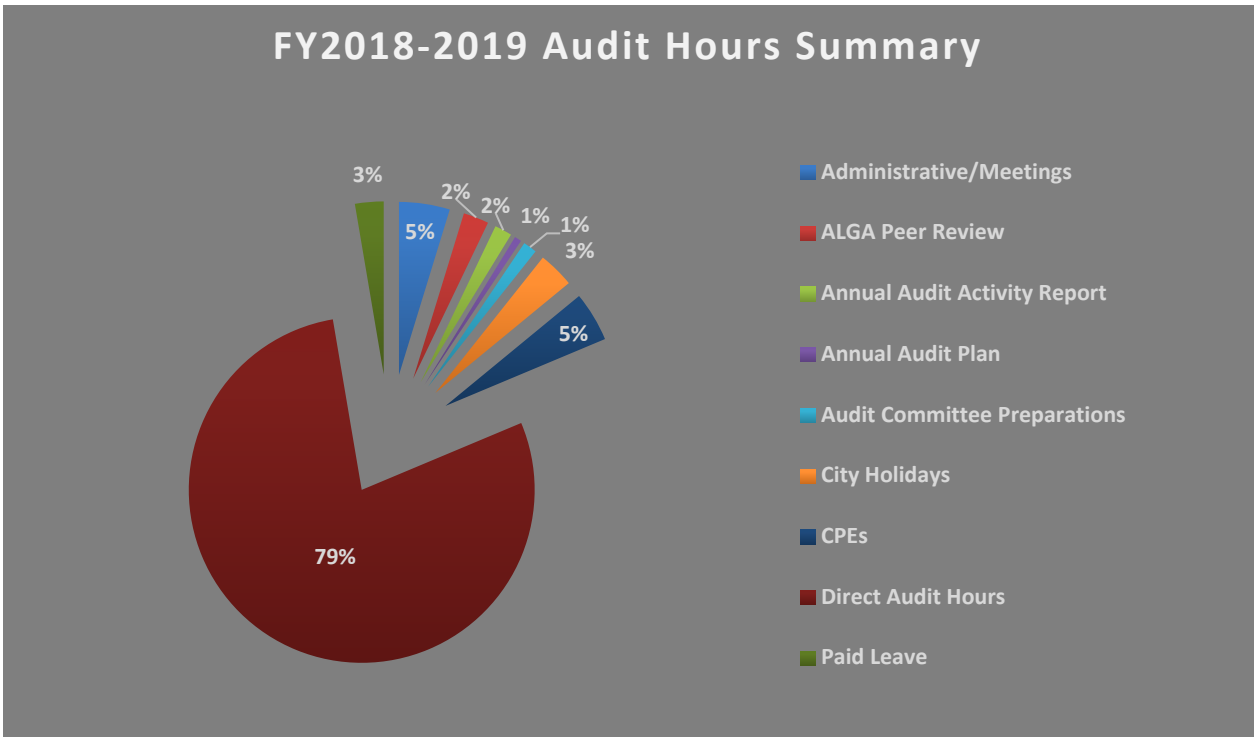
An Audit Committee was established on April 14, 2016, to assist the Surprise IA function with identifying opportunities to minimize risks, maximize efficiency and effectiveness and strengthen public accountability. Authority was granted to the Audit Committee with the adoption of Ordinance #2016-25 by the Mayor and City Council on September 6, 2016. The seven-member committee consists of two City Council Members, two Surprise department representatives, and three citizens. Public Audit Committee meetings are held quarterly, or as needed. Four Audit Committee meetings were held during FY2018-2019. Audit Committee activities are posted on the Surprise IA internet webpage for general public access along with audit reports and the annual audit plan to foster transparency in Surprise IA activity.

As stated in the Audit Committee Bylaws, each year Surprise external auditor presents the Surprise Comprehensive Annual Financial Report and Independent Auditor's Report to the Audit Committee. This provides each member with an opportunity to directly communicate with the Surprise external auditor.

PRODUCTIVITY

Direct Audit Hours

The approved FY2018-2019 Annual Audit Plan allocated 82% of Surprise IA hours as direct audit hours. Direct audit hours consist of audits, nonaudit services (continuous review of high-risk activities), and ad hoc projects. Seventy-nine percent (2296.50 out of 2,920) of actual available Surprise IA hours for FY2018-2019 were used as direct audit hours. Twenty-one percent (623.50 out of 2,920) of actual available Surprise IA hours were allocated to indirect audit activities consisting of meetings, training, administrative activities, peer review participation, Surprise IA quality control review, and staff benefit hours (vacation, holiday, sick leave, etc.). The 3% variance in budget to actual for indirect audit hours resulted primarily from activities related to new employee onboarding, training and weekly staff meetings which were not anticipated at the beginning of the year. Allocation of available audit hours for June 2019 was estimated for this report as the fourth quarter Audit Committee meeting occurred before June 30, 2019. The following chart summarizes the Surprise IA activity by allocated hours:



The FY2018-2019 Annual Audit Plan identified five audit projects, two continuous review projects related to inherently high-risk transactions, and one annual report on the status of audit recommendations, for a total of eight projects. Surprise IA considers a project completed when the draft report has been submitted to the applicable departments for review and management responses.

Surprise IA activity for FY2018-2019 resulted in three online audit reports published for access by citizens, four completed audit reports pending approval for distribution, two quarterly status reports pending online posting, one audit report pending management responses, and one report pending review with management. See the chart on page four for details on the 11 reports generated. The reports addressed a range of internal control topics that included:

- Account Payables Vendor Masterfile maintenance
- Adequacy and effectiveness of segregation of duties
- Assessment of benefits and enrollment management and controls
- Creation and documentation of policies and procedures
- Data access, protection, reliability, and integrity practices
- General information technology (IT) controls
- IT system privileges and access rights
- Software application implementation
- Procurement policy and procedures
- Account Receivables aging and collection practices

At the request of the Audit Committee, the Annual Audit Recommendation Status report was converted from an annual to a quarterly report. An additional 42.5 direct audit hours were reallocated to compensate for the additional reporting.

During FY2018-2019, Surprise IA worked with an external IT auditor to assess the Surprise IT Department's general and change management controls in place at the time of the audit. In compliance with GAGAS, the external IT auditor's work was overseen and approved by Surprise IA.

Three audit projects were initiated during FY2018-2019 and are currently scheduled for completion during the first quarter of FY2019-2020. One project was carried forward for initiation and completion in FY2019-2020.

Summary of Recommendations by Audit Report

Audit projects selected and completed as a part of the approved FY2018-2019 audit plan were based on the FY2015-2016 citywide risk assessment, interviews with city management and key department directors, special requests, and unplanned risks identified. Audit recommendations were developed to reduce the risk to Surprise operations and assets. Auditees were engaged and encouraged to provide feedback and comments.

The following table provides a summary of audit recommendations by audit report name:

FY2018-2019 Summary Total of Audit Recommendations				
	Department	Report Name	Report Date	Recommendations
Audits and Continuous Review Projects				
1	Community Development	*Building Permits	Pending	Pending
2	Community & Recreation Services	Program Revenue	October 11, 2018	16
3	Citywide	Continuous Review – Procurement Cards	November 20, 2018	11
4	Citywide	*Continuous Review – Account Payable	April 15, 2019	9
5	Executive Session	*Executive Session	November 26, 2018 February 4, 2019	15
6	Human Resources	*Benefits and Enrollment	Pending	16
7	Human Resources	*Continuous Review - Payroll	May 7, 2019	3
	Total			**70**
Cumulative Quarterly Status of Audit Recommendations				
8	Various Departments	**Recommendation Status Report – Q1	June 28, 2018	124
9	Various Departments	**Recommendation Status Report – Q2	October 23, 2018	30
10	Various Departments	**Recommendation Status Report – Q3	February 13, 2019	11
11	Various Departments	**Recommendation Status Report – Q4	June 19, 2019	25
	Total			**190**

***Pending management responses, review, or Audit Committee review**
****Each quarter new recommendations are added and implemented recommendations are removed.**

Surprise IA will monitor each open audit recommendation as staff works to resolve identified risks.

Audit Highlights

During FY2018-2019, Surprise IA addressed a diverse range of audit topics and responded to internal control concerns as they occurred. Highlights from Surprise IA activity included:

- Addressing data integrity and establishing additional guidelines for system implementation
- Identifying additional bi-weekly payroll review procedures to reduce the risk of erroneous or accidental payroll changes occurring
- Establishing a revenue control and management policy to reduce the risk of uncollectible accounts receivable, formalize the write-off process and establish consistency in the processing of revenue transactions
- Identification of duplicate vendor payments, credit memos, purchasing card policy non-compliance, and potential employee-vendor conflict of interest

Under the recommendation to automate services, one department completed the recommendation during FY2018-2019 and commented on seeing the following improvements:

- Quicker turnaround time to complete service requests
- Eliminated steps for manual tracking
- Huge savings on copy paper and duplications of steps to complete each request

Surprise IA Staffing and Qualifications

From November 2015 to December 2018, Surprise IA services were performed by one auditor. This period included the completion of eight audit reports, development of Surprise IA policies and procedures, bylaws, and the successful completion of Surprise IA's first External Quality Control Review.

On December 17, 2018, Surprise IA was fortunate to have an additional full-time auditor's position added to the staffing level. The new position functioned as a part-time position until May 20, 2019. It is anticipated that the additional staff member will allow Surprise IA the ability to complete two standard audit reports and one to two continuous review projects per quarter. The additional staff will allow Surprise IA to respond to risk as they arise and address a wider base of city departments. This was demonstrated by the completion of the Payroll Error Review memo completed on May 20, 2019.

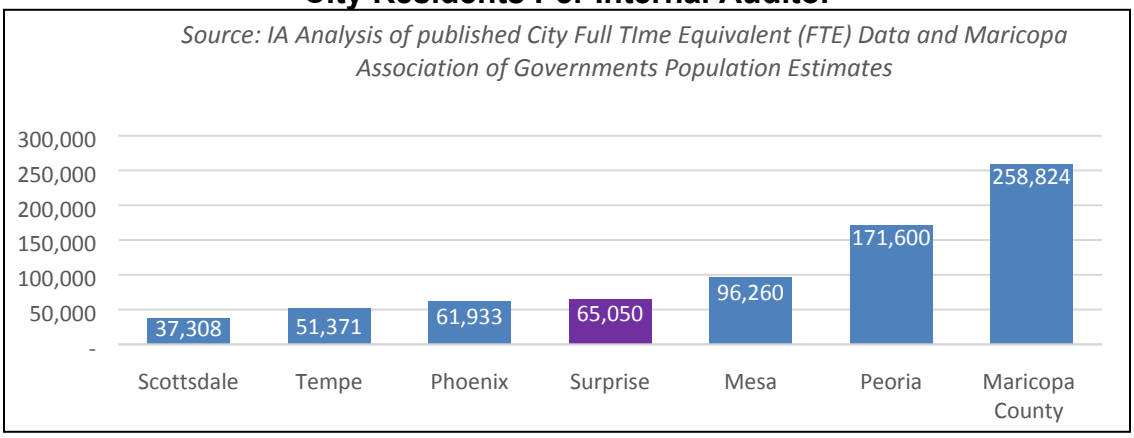
Surprise IA staff members are professionally certified in various areas of auditing and continue to seek opportunities to broaden their knowledge and expertise to better serve Surprise departments and management. Current certifications include:

- Certified Information Systems Auditor (CISA)
- Certified Internal Auditor (CIA)
- COSO Internal Control Certification

BENCHMARKING

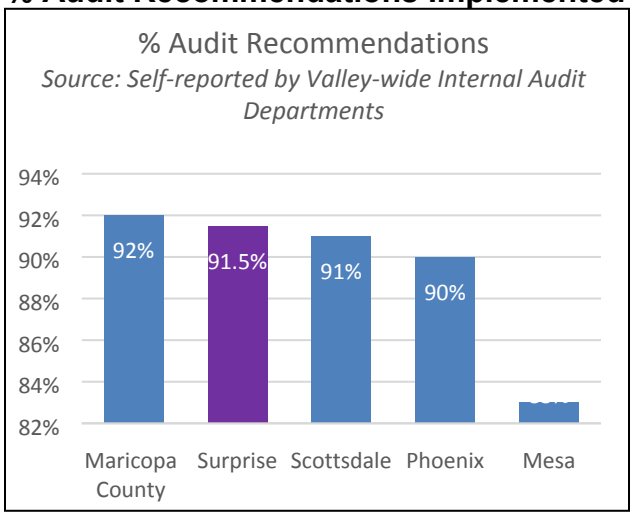
In June 2019, Surprise IA benchmarked on several metrics against other local IA functions (Maricopa County, Phoenix, Mesa, Scottsdale, Peoria, and Tempe). Not all metrics were reported or shared for all cities and some variation may exist in the specifications of how a city calculates a particular metric; as such, the numbers below should be considered estimates.

City Residents Per Internal Auditor

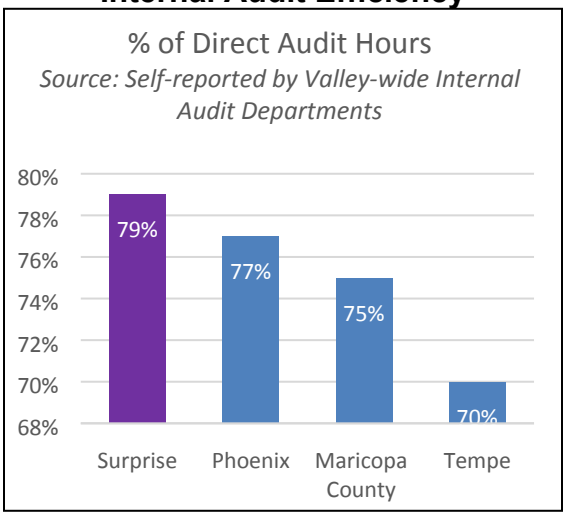


Surprise lies in the middle of the comparable range when considering the size of the city (measured by the number of city residents or city employees) and number of auditors.

% Audit Recommendations Implemented



Internal Audit Efficiency



Over the last four fiscal years, Surprise IA has made approximately 150 audit recommendations. Of those, 91.5% have already been implemented or are no longer necessary as the identified risk was mitigated in another way. Surprise IA implementation rate for audit recommendations rank in the top half of Valley IA departments. Additionally, for FY2018-2019, Surprise IA utilized 79% of their time on direct audit work which is the highest of the Valley cities tracking that information.

Other notable IA changes in the Phoenix metro-area during the FY2018-2019 include:

- Peoria, AZ (Population 168,000) established an IA function with the hiring of their first Internal Controls Manager.
- Glendale, AZ (Population 240,000) reduced the size of their IA function from two to one to utilize more external contractor support. This change was discouraged

by the national Institute of Internal Auditors (IIA) as a loss of institutional knowledge and independence in the reporting structure.
- The Phoenix branch of the IIA selected their first elected President who is a local government auditor in Scottsdale, increasing the representation of government auditors in the metro area.

PROFESSIONAL STANDARDS

Continuing Professional Education (CPE)

GAGAS 3.76 require auditors to maintain their professional competence through at least 80 hours of CPEs in every 2-year period. During FY2018-19, the two Surprise IA staff meet GAGAS professional competency requirement by participating and receiving 114 CPEs. The areas of training covered during the fiscal year included data analytics, auditing and governmental accounting standards updates, information technology security, leveraging IT to detect fraud and waste, public policy issues ahead, COSO internal control training, public finance, and various other topics. Surprise IA took advantage of free online and local membership chapter meeting participation and student rates to reduce the cost of training, when available.

To help facilitate cost-effective local training, Surprise IA staff participated in the Association of Local Government Auditor's (ALGA) Education Committee for the third year in a row. The committee provided the local region with an opportunity for 16 hours of CPE sessions and networking.

Internal Quality Control Review

GAGAS 3.93-3.95 requires IA to establish policies and procedures for quality control to provide an evaluation of whether:

- Professional standards and legal and regulatory requirements have been followed,
- Quality control system has been appropriately designed, and
- Quality control policies and procedures are operating effectively and compiled within practice

As part of the Surprise IA year-end internal quality control review, FY2018-2019 audit projects were reviewed by staff using the policy established in the Surprise IA Manual and the ALGA Engagement Review Checklist. Any identified deficiencies were corrected and discussed with staff.

External Peer Review

GAGAS 3.96 requires the IA function to obtain an external peer review at least once every three years. A successful external peer review was performed on March 22, 2018. In preparation for the next required external peer review in March 2021, Surprise IA staff has served as an ALGA peer review team member for the past two fiscal years. On August 6-10, 2018, Surprise IA staff served as a peer review team member for the State of Maryland Judiciary Internal Audit Department peer review. The participation as an ALGA peer review team member provides Surprise IA staff with an opportunity to view first hand how other governmental internal audit shops operate and comply with GAGAS.

AUDIT HORIZONS FY2019-2020

Leveraging Technology

The Surprise IA acknowledges the need to continue to grow and expand on the established auditing activities to address risks to Surprise operations and assets. IDEA CaseWare data analysis software provided an opportunity for audit activity to incorporate a more in-depth review of Surprise transactions and data. During FY2018-2019, the Surprise IA used IDEA auditing software to statistically analyze over 15,300 account payable transactions totaling over $77 million, $2.8 million in procurement card transactions and benefits-related payroll deductions for over 1,000 current and previous employees. The IDEA analysis identified duplicate payments, duplicate vendors, and employee vendors without the appropriate conflict of interest documentation.

Challenges

A primary challenge facing Surprise IA for FY2019-2020 is effectively leveraging technology to address a broader range of auditable Surprise units and increasing technology usage in data analytics. Several approaches will be implemented in FY019-2020 to leverage Surprise IA technology:

- Surprise IA staff will continue to participate in IDEA training both online and through the participation with local IDEA User Groups.
- Staff will participate in the next open Munis lab and seek assistance from expert Surprise staff members on Munis query writing.
- Work with the IT Department to assess the feasibility of using SharePoint or other Surprise technology to develop a method for automating the process for tracking and reporting on outstanding audit recommendations.

A second challenge is the rapidly changing environment in which Surprise operates. To more effectively identify and audit risks to Surprise operations as they arise, Surprise IA is increasing the percent of the time in the audit plan dedicated to continuous review and ad hoc projects. In FY2018-2019, approximately 5% of direct audit hours were

dedicated to monitoring projects. In the FY2019-2020 proposed audit plan, approximately 14% of direct audit hours are dedicated to monitoring projects to cover risk areas including bond projects, city spending, payroll variations, key employee departures, and audit follow-up. This increase will allow Surprise IA to respond more quickly to management requests, errors identified, and changing risk landscapes.

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: June 19, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person: Connie Bowers
District: Citywide

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

Agenda Wording:
Consideration and action pertaining to the FY2019-2020 Annual Audit Plan.

Motion:
I move to approve the FY2019-2020 Annual Audit Plan.

Background:
This item has been placed on the agenda to identify and obtain approval from the Audit Committee for how direct and indirect Internal Audit hours are allocated for FY2019-2020.

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

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

Financial Impact:
This item relates to work that will be performed as part of the FY2019-2020 Annual Audit Plan pending 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. FY2020 Audit Plan

Internal Audit
FY2019-2020 Annual Audit Plan
June 19, 2019

Activities	Department	Objective	Audit Hours	Start	Status
Carryover Activity					
GO Bonds-Cont. Review	Finance	Bond Activity Summary	40		
Crisis Response Team	Fire Medical	1. Determine if: • Operations comply with policies and procedures and are effective in meeting the needs of the community • Staff and volunteers are adequately trained and monitored on core essentials • City cash handling and procurement policies and procedures are complied with • Adequate controls are in place for monitoring and securing City assets and inventory. 2. Appropriate protocols are in place for securing and monitoring information technology systems and City data	100		
Contract Management/Sundance Volunteer Controls	Community & Recreation Services (CRS)	1. Review and determine whether the Department is in: • Compliance with contract terms and conditions • Compliance with appropriate policies, laws, and regulations 2. Assess the: • Adequacy of controls in place for authorizing and monitoring expenditures • Adequacy of cash handling procedures • Effectiveness of the supervision of the volunteer team and its relationship with City staff 3. Adequacy of information technology systems	300		
FY2020 Audits					
Internal Control Assessment	Citywide	To conduct internal control assessment on key City departments to identify potential high-risk activities that might impact City assets.	400		
Fleet Management	Public Works	Determine if adequate controls are in place to protect and safeguard City assets.	400		
Workers Compensation	City Attorney's Office-Risk Management	1. Determine whether adequate Workers' Compensation internal controls are in place to provide reasonable assurance that: • Applicable policies, laws, regulations and best practices are in place • Claim payments are accurate and authorized 2. Evaluate processing procedures based on a sample of claims.	400		

Water Asset Management	Water	1. Review and assess the implementation process and system access in place for new software 2. Determine whether or not the City's Information Technology Change Management controls and best practices were followed.	400		
Ambulance Contracts	Fire Medical	Determine compliance with ambulance contract terms and conditions.	400		
Cash Handling	Citywide	1. Determine if adequate controls are in place to safeguard and protect City cash. 2. Determine if the staff complies with citywide cash handling policies and procedures. 3. The primary focus will be on City Hall central cashiering. Surprise cash counts will be conducted on satellite departments that process cash transactions.	300		
Court Fee Waivers	City Court	Determine if fee waivers are processed in compliance with the Courts Compliance Assistance Program (CAP)	360		
Continuous Monitoring	Citywide	Potential Desk Audits/Management Requests/Quarterly Recommendation Status Report: • Session Planning – Various Departments • Terminated Employees – Exit Review • Detainee/Prisoner County Billing • Revenue Contracts • P-Card Review • GO Bond Summarization • Accounts Payable Transactions • Payroll Salary Variances	260		
Total Direct Hours			**3360**		
Direct Hours%			**81%**		
Administrative					
Audit Committee	NA	Preparation and attendance for periodic meetings	100		
Annual Audit Reports	NA	Annual Audit Plan Annual Audit Activity Report	200		
Meetings/Misc./AL GA Peer Review	NA	Misc. Meetings/Administrative Tasks/Unplanned management requests for service / Peer Review	120		
Professional Development					
GAGAS 3.76 Requires auditors to obtain 80 CPEs every two years	NA	To meet Government Auditing Continuing Professional Education standards	80		
Benefit Hours					
Holidays/Closure	NA	City Holidays (10 City Council Approved Days)	160	NA	
Paid Leave	NA	Personal Leave in FY2020	140		
Total Indirect			**800**		
Indirect Hours %			**19%**		
Total Audit Hours			**4160**		

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: June 19, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:
Discussion pertaining to the engagement letters for the City of Surprise's June 30, 2019 annual external audit conducted by Heinfeld Meech.

Motion:
Information/Discussion only.

Background:
This item has been placed on the agenda to discuss and inform the Audit Committee of the intent of the city's external auditor, Heinfeld Meech, to conduct the city's annual financial statements audit for the year ending June 30, 2019.

Objective Analysis:
The objectives of the engagement letters are to identify the activities that will be performed by the external auditor for the period ending June 30, 2019.

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

Financial Impact:
This item relates to work performed by the city's external auditor as part of the annual review of citywide financial statements.

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

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

ATTACHMENTS:
1. Engagement Ltr ELR Examination FY19 Surprise City

2. Engagement Ltr FY19 Surprise City -Signed

May 21, 2019

Nicholas Sarpy, Accounting Manager
City of Surprise
16000 N. Civic Center Plaza
Surprise, AZ 85374

We are pleased to confirm our understanding of the services we are to provide for the City of Surprise, Arizona (City).

We will examine the Annual Expenditure Limitation Report (AELR) of the City for the year ended June 30, 2019. The objective of our examination is to obtain reasonable assurance about whether the AELR is presented, in all material respects, in accordance with the Uniform Expenditure Reporting System.

Our examination will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Accordingly, it will include examining, on a test basis, your records and other procedures to obtain evidence necessary to enable us to express our opinion. We will issue a written report upon completion of our examination. Our report will be addressed to the Auditor General of the State of Arizona, Honorable Mayor, Members of the City Council, and Management of the City. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the examination or are unable to form or have not formed an opinion, we may decline to express an opinion or may withdraw from this engagement.

Because of the inherent limitations of an examination engagement, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the examination is properly planned and performed in accordance with the attestation standards.

We will plan and perform the examination to obtain reasonable assurance about whether the AELR is free from material misstatement, based on the Uniform Expenditure Reporting System. Our engagement will not include a detailed inspection of every transaction and cannot be relied on to disclose all material errors, or known and suspected fraud or noncompliance with laws or regulations, or internal control deficiencies that may exist. However, we will inform you of any known and suspected fraud and noncompliance with laws or regulations, internal control deficiencies identified during the engagement, and uncorrected misstatements that come to our attention unless clearly trivial.

We understand that you will provide us with the information required for our examination and that you are responsible for the accuracy and completeness of that information. We may advise you about appropriate criteria, but the responsibility for the subject matter remains with you.

You are responsible for the presentation of AELR in accordance with the Uniform Expenditure Reporting System and for selecting the criteria and determining that such criteria are appropriate for your purposes. You are responsible for, and agree to provide us with, a written assertion about whether AELR is presented in accordance with the Uniform Expenditure Reporting System. Failure to provide such an assertion will result in our withdrawal from the engagement. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the measurement, evaluation, or disclosure of the subject matter; (2) additional information that we may request for the purpose of the examination; and (3) unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

At the conclusion of the engagement, you agree to provide us with certain written representations in the form of a representation letter.

We maintain internal policies, procedures, and safeguards to protect the confidentiality of your information. We may, depending on the circumstances, use third-party service providers in providing our professional services. You hereby consent and authorize us to use service providers, if deemed necessary, to complete the professional services outlined in this letter.

Brittney Williams is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fee for these services will be at the amount outlined in our proposal. Our fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. We exercised care in estimating the fee and believe it accurately indicates the scope of the work. Subsequent review of documentation and additional meetings will be billed at the hourly rates indicated below. Our fee does not include factors beyond our control, such as consultation and assistance in correcting errors in City prepared information, or rescheduling when the City is not prepared. Not completing the requested information on time will jeopardize meeting the applicable filing deadlines. Additional fees incurred for factors beyond our control will be billed at the following hourly rates: Partner - $265; Manager - $195; Senior - $155; Staff - $110. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

cc: Andrea Davis, Finance Director

RESPONSE:

This letter correctly sets forth the understanding of City of Surprise, Arizona.

By: Nicholas Sarpy
Nicholas Sarpy (May 24, 2019) _____

Title: Accounting Manager _____

Date: May 24, 2019 _____

May 21, 2019

Honorable Mayor, Members of the City Council, and Management
City of Surprise
16000 N. Civic Center Plaza
Surprise, AZ 85374

We are pleased to confirm our understanding of the services we are to provide for City of Surprise, Arizona (City) for the year ended June 30, 2019. We encourage you to read this letter carefully as it includes important information regarding the services we will be providing to the City. If there are any questions on the content of the letter, or the services we will be providing, we would welcome the opportunity to meet with you to discuss this information further.

We will audit the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements of City of Surprise, Arizona as of and for the year ended June 30, 2019. We have also been engaged to report on supplementary information that accompanies the City's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the basic financial statements as a whole:

1. Schedule of expenditures of federal awards
2. Combining and individual fund financial statements and schedules

Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI) to supplement the City's basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the City's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's discussion and analysis
2. Budgetary comparison schedules
3. GASB-required pension and other post-employment benefits schedules

The following other information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that information.

1. Other information included with the audited financial statements such as the Introductory and Statistical Sections of the Comprehensive Annual Financial Report

In addition, we will examine the following and issue an accountant's report based on our examination for the year ended June 30, 2019.

1. The Annual Expenditure Limitation Report

We will also provide the necessary services to prepare a report on Highway User Revenue Fund (HURF) expenditures in accordance with ARS §9-481(B)(2).

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We will also report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the basic financial statements taken as a whole. Our responsibility in the expression of opinions is to plan and perform the audit to obtain reasonable assurance, but not absolute assurance, that the financial statements are free from material misstatements.

An important aspect to our expression of opinions on the financial statements is understanding the concept of materiality. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial information needs of users of the financial statements. In this context, it is reasonable for us to assume that users –

1. have a reasonable knowledge of business and economic activities and accounting principles, and a willingness to study the information in the financial statements with reasonable diligence;
2. understand that financial statements are prepared, presented, and audited to levels of materiality;
3. recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
4. make reasonable economic decisions on the basis of the information in the financial statements.

The objective of our audit also includes reporting on –

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards.*
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major programs in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue reports, or may withdraw from this engagement.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our tests will not include a detailed check of all of the City's transactions for the period. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards.* In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs.

However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry.

At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures - Internal Controls

Our audit will include obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards.*

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the City has complied with federal statutes, regulations and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. The purpose of these procedures will be to express an opinion on the City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Nonaudit Services

As part of the audit, we will assist with the submission of the Data Collection Form. You have expressed your intention to use these nonaudit services within the scope of your request for proposal for audit services. These nonaudit services do not constitute an audit and such services will not be conducted in accordance with *Governmental Auditing Standards*.

As the City's independent auditor, professional standards place specific requirements on our provision of certain nonaudit services. We are strictly prohibited from assuming management responsibilities or making management decisions; therefore, the nonaudit services we provide are limited to those indicated above. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities or making management decisions. Accordingly, to maintain our independence it is imperative that management understand its responsibilities and is capable of fulfilling these responsibilities. If there are any questions or concerns regarding management's responsibilities or ability to fulfill these responsibilities we request that you immediately contact us so that we may assess the circumstance and our continued independence with respect to providing audit services

Management Responsibilities

Management is responsible for the basic financial statements, schedule of expenditures of federal awards, and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, including the preparation of the schedule of expenditures of federal awards in accordance with the requirements of the Uniform Guidance.

Management is responsible for (1) designing, implementing, establishing and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including internal controls over federal awards, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with accounting principles generally accepted in the United States of America; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements). Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information for which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.

Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the City involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, grantors, regulators, or others. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements and grants. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan. The summary schedule of prior audit findings should be available for our review prior to issuance of our reports.

Management is responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with the Uniform Guidance. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon or make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management is also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with accounting principles generally accepted in the United States of America. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or to make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in a written representation letter that (1) you are responsible for presentation of supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our tests will not include a detailed check of all transactions for the period.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We expect to begin our audit in June 2019 and conclude audit procedures and date our report in December 2019.

Use of Third-Party Service Providers

We maintain internal policies, procedures, and safeguards to protect the confidentiality of your information. We may, depending on the circumstances, use third-party service providers in providing our professional services. The following service providers may be utilized in the completion of our engagement:

- Capital Confirmation, Inc. – electronic bank and account balance confirmation service
- Wolters Kluwer – web-based application service to transfer files
- Harvest Investments, Ltd. – investment portfolio valuation service

You hereby consent and authorize us to use the above service providers, if deemed necessary, to complete the professional services outlined in this letter.

Engagement Administration, Fees and Other

We understand that your employees will prepare and provide us with the items listed in our request for audit information and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the Federal Audit Clearinghouse. We will coordinate with you the electronic submission and certification.

We will provide copies, which may include electronic copies, of the reports to the City. It is management's responsibility to submit the reporting package, if appropriate, to pass-through entities and any other agencies that request or require the reports. Unless restricted by law or regulation, or containing privileged or confidential information, copies of our audit reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Heinfeld, Meech & Co., P.C., and constitutes confidential information. However, we may be requested to make certain audit documentation available to a cognizant or oversight agency or its designee, a federal agency providing direct or indirect funding, the U.S. Government Accountability Office, or other authorized governmental agency for the purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. If requested, access to such audit documentation will be provided under the supervision of Heinfeld, Meech & Co., P.C., personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release or for any additional period requested by governmental agencies. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the parties contesting the audit finding for guidance prior to destroying the audit documentation.

Brittney Williams is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our fee for these services will be at the amount outlined in our proposal. Our fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. We exercised care in estimating the fee and believe it accurately indicates the scope of the work. Subsequent review of documentation and additional meetings will be billed at the hourly rates indicated below. Our fee does not include factors beyond our control, such as new GASB requirements, consultation and assistance in correcting errors in City-prepared information, or rescheduling of the audit when the City is not prepared. It will be necessary for you to complete the requested information by certain timelines in order to meet the applicable filing deadlines for your audit reports. Not completing the requested information on time will jeopardize meeting the applicable filing deadlines. Additional fees incurred for factors beyond our control will be billed at the following hourly rates: Partner - $265; Manager - $195; Senior - $155; Staff - $110. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2018 peer review report accompanies this letter.

We appreciate the opportunity to be of service to City of Surprise, Arizona and believe that this letter accurately summarizes the significant terms of our engagement. Please feel free to contact us at any time if you have questions or concerns. If you have any questions regarding this letter, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

cc: Nicholas (Nick) Sarpy, Accounting Manager
Andrea Davis, Finance Director

RESPONSE

This letter correctly sets forth the understanding of City of Surprise, Arizona.

Printed Name: Andrea Davis

Title: Finance Director

Signature: Andrea Davis
Andrea Davis (Jun 11, 2019)

Date: Jun 11, 2019

Grant Bennett Associates
A PROFESSIONAL CORPORATION

Report on the Firm's System of Quality Control

August 16, 2018

To the Shareholders of Heinfeld, Meech & Co., P. C. and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Heinfeld, Meech & Co., P. C. (the firm) in effect for the year ended May 31, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility
The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility
Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations
Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion
In our opinion, the system of quality control for the accounting and auditing practice of Heinfeld, Meech & Co., P. C. in effect for the year ended May 31, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Heinfeld, Meech & Co., P. C. has received a peer review rating of *pass*.

Grant Bennett Associates

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CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: June 19, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person: Connie Bowers
District: Citywide

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

Agenda Wording:
Action pertaining to approval of the Information Technology internal audit report.

Motion:
I move to approve the confidential Information Technology audit report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2018-2019 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

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

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

Financial Impact:
This item relates to work performed as part of the FY2018-2019 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:

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: June 19, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person: Connie Bowers
District: Citywide

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

Agenda Wording:
Consideration and action to recess into executive session pursuant to A.R.S. 38-431.03(A)(2) for presentation and discussion of Information Technology material and documents deemed confidential by law.

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

Background:

Objective Analysis:

Policy Compliant:

Financial Impact:

Budget Impact:

FTE Impact:

ATTACHMENTS: