



**CITY OF SURPRISE
Audit Committee Meeting
16000 N. Civic Center Plaza
Surprise, AZ 85374**

Thursday, April 25, 2024 @ 3:00 PM
COUNCIL CHAMBERS OVERFLOW ROOM

- A. Call To Order
- B. Roll Call
- C. Pledge of Allegiance
- D. Current Events and Reports
- E. Staff Reports
- F. City Audit Committee Agenda

CALL TO THE PUBLIC:

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

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

CONSENT AGENDA:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

- | | | | |
|----|----------|---|---------------------|
| 1. | Citywide | Consideration and action pertaining to approval of the September 21, 2023, Executive Session meeting minutes. | City Manager Office |
| 2. | Citywide | Consideration and action pertaining to approval of the January 18, 2024, meeting minutes. | City Manager Office |
| 3. | Citywide | Discussion and action pertaining to the Procurement Audit Report. | City Auditor |
| 4. | Citywide | Discussion and action pertaining to the Solid Waste Operations Audit Report. | City Auditor |
| 5. | Citywide | Discussion and action pertaining to the Continuous Auditing: Citywide Procurement Cards Audit Report. | City Auditor |
| 6. | Citywide | Discussion and action pertaining to the FY2023-2024 Risk Assessment Report. | City Auditor |
| 7. | Citywide | Presentation of the Compliance Connection Newsletter - Issue #4 and discussion of Fourth Quarter audit work and projects. | City Auditor |

G. Other Business and Future Agenda Items

H. Executive Session

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

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

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

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

I. Adjournment

KRISTI PASSARELLI, CITY CLERK

POSTED: Friday, April 19, 2024 @ 10:00 AM

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



**CITY OF SURPRISE
Audit Committee Meeting**

Council Meeting Date: April 25, 2024 Contact Person:
Submitting Department: City Manager Office District: Citywide
Staff Recommendations: None

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

Agenda Wording:

Consideration and action pertaining to approval of the September 21, 2023, Executive Session meeting minutes.

Motion:

I Move to approve the September 21, 2023, Executive session meeting minutes.

Background:

Objective Analysis:

Policy Compliant:

Financial Impact:

Budget Impact:

FTE Impact:

ATTACHMENTS:



**CITY OF SURPRISE
Audit Committee Meeting**

Council Meeting Date: April 25, 2024 Contact Person:
Submitting Department: City Manager Office District: Citywide
Staff Recommendations: None

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

Agenda Wording:

Consideration and action pertaining to approval of the January 18, 2024, meeting minutes.

Motion:

I move to approve the January 18, 2024, Audit Committee meeting minutes.

Background:

Objective Analysis:

Policy Compliant:

Financial Impact:

Budget Impact:

FTE Impact:

ATTACHMENTS:

1. 2024-01-18 draft minutes
-

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

Thursday, January 18, 2024 – 3:30 p.m.

CALL TO ORDER

Chair Tatiana Young called the **Audit Committee Meeting** to order at 3:30 p.m. at Surprise City Hall, Overflow Room, 16000 North Civic Center Plaza Surprise, Arizona 85374, on Thursday, January 18, 2024.

ROLL CALL

Tatiana Young, Chair, Stephen Gaddis, Vice Chair, Councilmember Chris Judd, Councilmember Ken Remley (Telephone), Holly Osborn, Director of Parks and Recreation, Andrea Davis, Chief Financial Officer/Deputy City Manager (Absent).

PLEDGE OF ALLEGIANCE

CURRENT EVENTS AND REPORTS

None.

STAFF REPORTS

None.

STAFF PRESENT

Carol Holley, City Auditor, Melissa Moreno, Internal Auditor Sr., Erick Martin, Assistant Director of Finance, Jackie Moucheron, Staff Liaison.

CALL TO THE PUBLIC

None.

REGULAR AGENDA ITEM

1. **Action item: Consideration and action pertaining to approval of the September 21, 2023, meeting minutes:**

Committee member Stephen Gaddis moved to approve the September 21, 2023, meeting minutes and Councilmember Judd seconded the motion. Motion carried 4-0.

2. **Discussion item: Presentation and discussion pertaining to the FY2022-2023 Annual Comprehensive Financial Report and associated reports:**

Erick Martin did a quick overview and then turned it over to Brittany who is an external auditor. Brittany presented the FY2023-2024 Annual Audit Plan to the committee.

Stephen Gaddis asked what a custodial account is in the report. Erick Martin responded that they are funds that we have fiduciary responsibility for, which can't be spent on general city items, so in this case, it is employee contribution to the health plan. Stephen then wanted to confirm the unrestricted and restricted debt amounts at 6% and 20%. Brittany responded that it has to do with debt limitations, the type of debt being issued, and how much can be issued. The percentages pertain to the assessed value. It's an annual report sent out by the state that gives the net accessible cash value and net assessed value for every municipality and school district in the state. Stephen Gaddis asked what P&S stands for. Erick Martin responded that P&S stands for primary and secondary tax. Stephen Gaddis followed up by asking what the total cost of the audit was. Erick Martin responded that the total cost of the FY2023 audit was \$90,000.

No action was taken on this item.

3. Discussion item: Presentation and discussion pertaining to the status of the FY2023-2024 Annual Audit Plan:

Carol Holley discussed the FY2023-2024 Annual Audit Plan with the committee.

Tatiana asked about the employee survey, specifically about the misuse of city assets and how Carol would handle that. Carol responded that they would try to figure out what assets they were talking about and then they would count that into our assessment and see if we could figure out where to go with that.

Stephen asked if she received good suggestions or ideas that would be helpful to her from the employee's response to the survey. Carol responded that they received a few good suggestions, including a good one for internal audit. She stated that many departments don't know what we do and what services we provide. Based on that information, we have to start educating what we are, what we do, how we do it and why we do it.

No action was taken on this item.

OTHER BUSINESS AND FUTURE AGENDA ITEMS

Stephen asked how the search for a third member of the Audit Committee was going. Carol responded that she received an email that the clerk's office is in the process of getting together an interview.

Councilmember Remley suggested that internal audit continue doing some random transaction testing that will cover all the city departments. Then, have the external

auditors use that in their audit. Erick Martin responded that he agreed that external auditors can rely on some of the work of internal auditors; unfortunately, they have to do some testing on their own.

The next Audit Committee Meeting will be held on **April 25, 2024**, at 3:00 p.m.

EXECUTIVE SESSION

None.

ADJOURNMENT

Councilmember Judd moved to adjourn, and Stephen Gaddis seconded the motion. Motion carried 4-0. The meeting was adjourned at 4:20 p.m.

ATTEST:

Tatiana Young, Chair

Jackie Moucheron, Staff Liaison

DRAFT



**CITY OF SURPRISE
Audit Committee Meeting**

Council Meeting Date: April 25, 2024
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Discussion and action pertaining to the Procurement Audit Report.

Motion:

I move to approve and distribute the Procurement Audit Report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2023-2024 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 FY2023-2024 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. Secured Procurement Audit Report
-



S U R P R I S E

A R I Z O N A

Procurement Audit Report

To determine whether the City's procurement process complies with City policies, procedures, municipal code, and laws and regulations.

November 30, 2023

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Executive Summary

As part of the City Auditor Department’s (CAD) FY2023-2024 Annual Audit Plan, an audit of procurement for July 1, 2021, through December 31, 2022, was performed. The purpose of the audit was to determine whether the City of Surprise’s (City’s) procurement process complied with City policies, procedures, municipal code, and laws and regulations. It is important to note that the scope of the audit was limited to exempt procurements. The CAD has not previously audited procurement.

Overall, we found Procurement Division Munis workflow was not separated as intended by the workflow business rules. Additionally, we randomly and judgmentally sampled 34 exempt procurement contracts for supporting documentation as described by the Finance Department’s *Procurement Guidelines*¹ (Guidelines) and identified 17 contracts with exceptions. To the Procurement Division’s credit, we found that all sampled exempt procurements were accurately classified as exemptions as identified by the *Procurement Code*² (Code). Further, we analyzed employee master file data against all contracts entered between July 1, 2021, and December 31, 2022, and did not identify any potential conflicts of interest. We also reviewed October 2023 menu, permission, and data access Munis reports for the requisition, purchase order, and contract management modules for Procurement Division users and determined that user access was limited to the least privilege necessary.

Procurement has areas of achievement and opportunities for improvement

- ✓ Classification of exempt procurements
- ✓ Conflict of interest
- ✓ Access in Munis
- ✗ Separation of workflow
- ✗ Supporting documentation

Area of achievement Area of improvement

As a result, this report documents opportunities for improvement and makes recommendations to the Procurement Division to review and ensure workflow is separated and to maintain sufficient supporting documentation per the Guidelines and the State’s record retention policies.

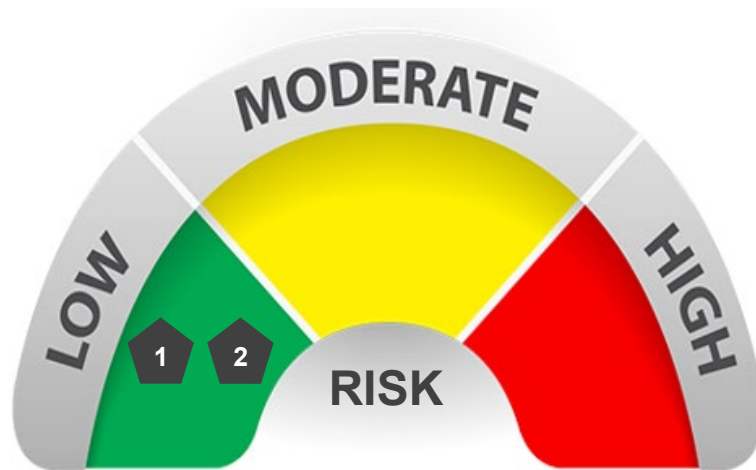
Refer to Appendix A for more information about procurement.

¹ *Procurement Guidelines* 601 and 2501
² *Procurement Code* Sec. 2-340

Observations Summary and Risk Rating

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

1. Procurement Division workflow was not separated as intended by the workflow business rules.
2. The Procurement Division did not maintain sufficient supporting documentation for exempt procurements.



Detailed Observations

1 – Procurement Division workflow was not separated as intended by the workflow business rules.

Separation of duties is an internal control that helps to reduce the risk of fraud, errors, and abuse of authority by dividing a task between more than one person so that no one person can complete a task without secondary review. City policy and best practice support the principle of separation of duties. Specifically, the City’s *Information Security General Controls Policies*³ state that separation of responsibilities will be enforced to ensure that no one individual has conflicting duties. Further, the National Institute of Governmental Purchasing (NIGP), an organization used by the Procurement Division as a resource and best practice, recommends that procurement authority and control be designed to ensure proper controls, such as separation of duties⁴. In Munis, separation of duties is established through workflow.

As part of the Procurement Audit, we reviewed Steps 50 and 60 in the Contract Approvals, Requisition Approvals, and Purchase Order (PO) Change Order Approvals Munis workflows because these are procurement-specific approval steps. The Contract Approvals workflow is specific to the Procurement Division. In contrast, the Requisition Approvals and the PO Change Order Approvals workflows may include, depending on the purchase, other departments in the approval process. Depending on the workflow process, different actions occur at Step 50 and Step 60, as shown in Table 1.

Table 1
Separate user roles performed different actions at Steps 50 and 60 of the Contract, Requisition, and PO Change Order Approvals workflows

Workflow Process	Step 50			Step 60		
	User Role ¹	Additional Users ²	Action	User Role ¹	Additional Users ²	Action
Contract Approvals ³	F_FN_BUYER	1	Enters contract	F_FN_PROC_MGR	0	Verifies entry
Requisition Approvals ⁴	F_FN_BUYER	0	Reviews requisition for contract and pricing accuracy	F_FN_PROC_MGR	0	Verifies requisition pricing and procurement type; converts to a PO
PO Change Order Approvals ⁴	F_FN_BUYER	0	Reviews request and budget strings and sales tax	F_FN_PROC_MGR	0	Verifies the change and reposts the PO

¹ Specific users are assigned to user roles. A user role can include one or more users.
² In addition to assigning a user role to a workflow step, specific users can be assigned to workflow steps.
³ The Contract Approvals workflow is specific to the Procurement Division and does not include other departments in the workflow.
⁴ The Requisition and PO Change Order Approvals workflows are not specific to the Procurement Division and may include other departments in the workflow.

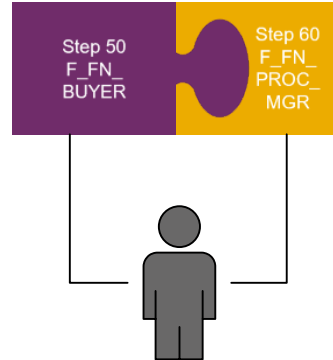
Source: City Auditor Department staff analysis of Munis’ Contract Approvals, Requisition Approvals, and PO Change Order Approvals workflow business rules from July 1, 2021, to December 31, 2022.

³ *Information Security General Controls Policies* Version 3.1, Section 4.6.1
⁴ NIGP is a 501(c)(3) nonprofit educational association that seeks to develop, support, and promote the public procurement profession. NIGP: The Institute for Public Procurement. (2014). *A position paper from NIGP: The Institute for Public Procurement on the Meaning of Procurement Authority and the Importance of its Effective Delegation and Use*. Retrieved 9/7/23 from <https://www.nigp.org/resource/position-papers/Procurement%20Authority%20in%20Public%20Entities%20Position%20Paper.pdf?dl=true>

We found that the Procurement Division did not separate procurement-related Munis workflow Steps 50 and 60 across the Contract Approvals, Requisition Approvals, and PO Change Order Approvals workflows during the audit period, July 1, 2021, to December 31, 2022. Although workflow Steps 50 and 60 were designed so that separate user roles approve Steps 50 and 60, as shown in Table 1, Steps 50 and 60 were not separated in practice because a user was granted access to both the F_FN_BUYER (Buyer) and F_FN_PROC_MGR (Manager) user roles, as shown in Figure 1. Access to the Buyer and Manager user roles allowed the user to approve contracts, requisitions, and PO change orders independent of another Procurement Division user's review.

Figure 1

One user's workflow was not separated in the Contract Approvals, Requisition Approvals, and PO Change Order Approvals workflows



One user had access to both user roles from July 14, 2021, to October 18, 2022

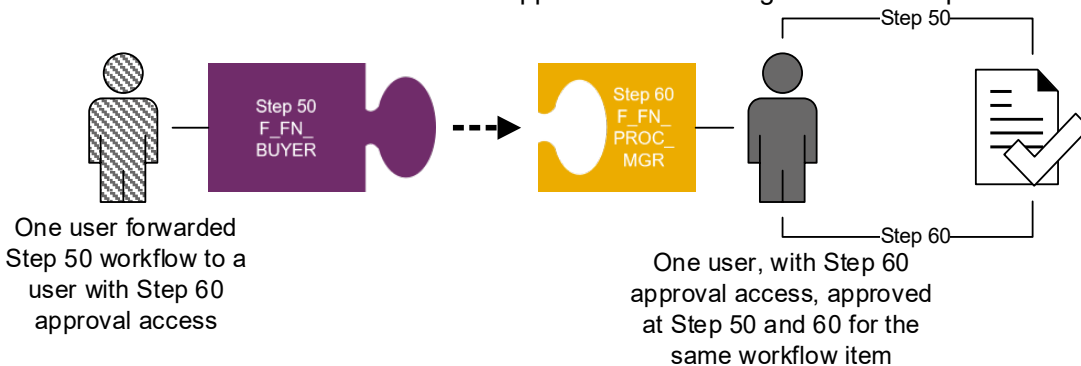
Source: City Auditor Department staff analysis of Munis' Contract Approvals, Requisition Approvals, and PO Change Order Approvals workflow business rules from July 1, 2021, to December 31, 2022.

We reviewed Steps 50 and 60 workflows from July 1, 2021, to December 31, 2022, and did not identify any contracts or PO change orders approved by this user at both Steps 50 and 60. However, we did identify two requisitions in which the user was the approver at Steps 50 and 60. The Procurement Division reviewed these two requisitions and did not identify any errors. Both requisitions were approved by someone separate from the Procurement Division at an earlier step in the workflow process.

Additionally, one user, assigned to the Manager role, received forwarded Step 50 workflow from a user assigned to the Buyer user role. This allowed the user to approve the forwarded workflow at Steps 50 and 60, which the user did for one forwarded PO Change Order, as shown in Figure 2. The Procurement Division reviewed this PO Change Order and did not identify any errors. However, this user made all approvals for this PO Change Order.

Figure 2

One user forwarded Step 50 workflow to another user, creating a separation of duties conflict, and the user that received the forwarded workflow approved a PO Change Order at Steps 50 and 60



Source: City Auditor Department staff analysis of Munis' Contract Approvals, Requisition Approvals, and PO Change Order Approvals workflow business rules from July 1, 2021, to December 31, 2022.

According to the Procurement Division, it does not formally review Munis user access. Although the two users we identified no longer have access to the Buyer and/or Manager user roles, the City increases its risk of fraud, errors, and abuse of authority when it does not review and separate workflow to ensure that no one individual has conflicting duties.

Recommendations

The Procurement Division should:

- 1A. Develop and implement procedures to review Steps 50 and 60 of the Contract Approvals, Requisition Approvals, and PO Change Order Approvals workflows at least annually and during staff changes to ensure workflow is separated following the City's *Information Security General Controls Policies*.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 1/31/2025

Currently the risk of fraud, error, and abuse of authority is mitigated by the separation of approvals between the requesting department and procurement. The two steps, 50 and 60 were created within procurement to add a layer of review for the manager, however, it is not necessary for segregation of duties. The procurement division is currently working on updating policies and procedures and will evaluate the workflow and review process to ensure proper segregation of duties, and fraud, errors or abuse is mitigated while having an efficient process.

- 1B. Develop and implement procedures to ensure that forwarded workflow is separated following the City's *Information Security General Controls Policies*.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 3/20/2024

Currently, the Procurement Policies and Procedures address proper segregation of duties which include workflow. Training has been provided to Procurement staff, to ensure workflow is not forwarded to maintain compliance with the Procurement Guidelines.

2 – The Procurement Division did not maintain sufficient supporting documentation for exempt procurements.

Guideline 601 details documentation for exempt procurements. Specifically, Guideline 601 requires that departments use the Competitive Bidding Requirements Exemption Form (CBEF) for exempt procurements. The CBEF documents the exemption request and the Procurement Division's determination. Additionally, Guideline 2501 details additional documentation required for cooperative procurements, an exempt procurement type. Further, the Arizona State Library, Archives, and Public Records rules require public bodies to retain procurement documentation, including cooperative purchasing supporting documentation⁵.

We randomly and judgmentally sampled 34 of 335 or 10 percent of exempt procurement contracts entered between July 1, 2021, and December 31, 2022, for supporting documentation as required by Guidelines 601 and 2501 and identified 17 contracts with exceptions. Some contracts had more than one exception. Specifically,

- 2 exemptions did not have a CBEF⁶.
- 3 exemptions did not have support via the CBEF that the Procurement Division reviewed and approved the request⁷.
- 6 cooperative procurements did not have written justification that the contract benefits the City and meets the City's Code⁸.
- 3 cooperative procurements did not have complete solicitation supporting documentation⁹.
- 10 cooperative procurements did not reference the applicable contract number of the soliciting entity on the PO¹⁰.

The Procurement Division did not ensure it had the supporting documentation required by Guidelines 601 and 2501. According to the Procurement Division, some exceptions are clerical errors that cannot be retroactively corrected because the PO is closed and expired and the contract is closed. However, for some exceptions, the Procurement Division has either corrected or is in the process of correcting the exception.

To comply with the Finance Department's *Procurement Guidelines* and the State's records retention policies, sufficient supporting documentation should be maintained. Documentation provides evidence that the procurement process was followed. Therefore, insufficient supporting documentation puts the City at risk of noncompliance and may increase the Procurement Division's reputational risk.

⁵ A.R.S. §41-151.12 grants the Arizona State Library, Archives, and Public Records the authority to set records retention periods. Further, A.R.S. §41-151.14 requires cities to comply with the rules, standards, and procedures adopted by the Arizona State Library, Archives, and Public Records. Arizona State Library, Archives, and Public Records Schedule Number GS-1032 Rev. 1, Record Series Numbers 21072 and 52997.

⁶ *Procurement Guidelines* 601(A)(2)(a)

⁷ *Procurement Guidelines* 601(A)(2)(b)

⁸ *Procurement Guidelines* 2501(A)(2)(a)

⁹ *Procurement Guidelines* 2501(A)(2)(c)

¹⁰ *Procurement Guidelines* 2501(A)(2)(e)

Recommendations

The Procurement Division should:

2A. Resolve the identified exceptions for the contracts in the audit sample, if applicable.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 3/22/2024

The Procurement Manager will work with the Procurement team to resolve exceptions where applicable.

2B. Develop and implement procedures to ensure exempt procurements have supporting documentation as required by Guidelines 601 and 2501 and State records retention policies.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/1/2023

Complete. Training has been provided to procurement staff to ensure all supporting documentation as required by Guidelines 601 and 2501 and State records retention policies. The procurement manager will haphazardly review and sample transactions throughout the year to ensure compliance.

Appendix A

Background

The Procurement Division is part of the Finance Department. The Procurement Division is responsible for purchasing, renting, leasing, or otherwise acquiring commodities, services, or construction for the City. This includes preparing specifications and requirement descriptions, soliciting bids or proposals, evaluating and selecting sources, and preparing and awarding contracts. City procurements follow the City Council-approved *Procurement Code*. Additionally, the Finance Department has developed *Procurement Guidelines* to explain, illustrate, and provide guidance for City employees using the *Procurement Code*.

The Procurement Audit was limited to exempt procurements. Exempt procurements are exempt from competitive bidding requirements and include¹¹:

- Professional or specialized services.
- Emergency procurements.
- Situations where solicitations of bids or proposals would for any reason be impractical, unavailing, or impossible.
- Sole source procurements.
- Insurance and bonds.
- Procurements funded by grants, donations, or gifts when the special conditions attached to the grants, donations, or gifts require the procurement of particular goods and/or services.
- Works of art, entertainment, or performance.
- Intergovernmental payments, purchases, and agreements.
- Membership dues, conventions, training, and travel arrangements.
- Advertisements in magazines, newspapers, or other media.
- Goods procured for resale to the public.
- Cooperative procurements.
- Agreements negotiated by the City Attorney or Risk Manager in settlement of a claim or litigation or threatened litigation.
- Public utility purchases of water, power, and related services.
- Development agreements.
- The purchase or sale of real property and ancillary services related thereto, such as title insurance, appraisals, or environmental assessments to the extent that they are negotiated as part of the contract for the purchase or sale of real property.

The Procurement Division uses Munis, an Enterprise Resource Planning system that manages City functions, including Financials, to manage its contracts, requisitions, and PO change orders. Munis workflow is governed by specific business rules. When a contract, requisition, or PO change order is released into workflow, Munis evaluates the item against its business rules to determine which steps in the workflow process apply to the contract, requisition, or PO change order. Specific users and/or user roles are assigned to workflow steps. Depending on the business rule, a workflow step may provide a user and/or user role with a workflow notification, or it may allow a user and/or user role to approve a workflow item. Additionally, the Procurement

¹¹ *Procurement Code* Sec. 2-340

Division uses its Procurement Assistance Request (PAR) system to track procurements. However, we did not review the PAR system as we consider it low-risk.

Objectives, Scope, and Methodology

We conducted a performance audit of procurement pursuant to Ordinance No. 2016-26, which grants the City's internal audit program authority to conduct City internal audits. This audit focused on exempt procurements from July 1, 2021, to December 31, 2022, and evaluated whether the City's procurement process complied with City policies, procedures, municipal code, and laws and regulations. The Procurement Division includes the mailroom and surplus property. However, the mailroom and surplus property were outside the scope of this audit.

Specifically, the CAD evaluated whether:

- The Procurement Division users' access to the Purchasing and Contract Management modules in Munis was limited to the least privilege necessary.
- The Procurement Division's duties were separated across the Contract Approvals, Requisition Approvals, and PO Change Order Approvals workflows.
- The Procurement Division maintained exempt procurement documentation following Guidelines 601 and 2501 and the State's record retention policies.
- The Procurement Division exempted procurements that were not an exemption type identified by the Code.
- The Procurement Division avoided conflicts of interest.

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

- Reviewing applicable City policies, municipal code, laws, and regulations.
- Sampling, randomly and judgmentally, 34 of 335 or 10 percent of exempt procurement contracts entered between July 1, 2021, and December 31, 2022, for supporting documentation.
- Interviewing Procurement Division staff.
- Interviewing IT staff and Tyler Technologies about the Purchasing and Contract Management modules in Munis.
- Reviewing Contract Entry data from July 1, 2021, to December 31, 2022.
- Reviewing October 2023 system-generated Munis account detail, role assignment, permission, data access, and menu data.
- Reviewing workflow history for Contract Approvals, Requisition Approvals, and PO Change Order Approvals from July 1, 2021, to December 31, 2022.
- Reviewing July 1, 2021, to December 31, 2022, Contract Entry vendor data against October 2023 system-generated Employee Master File names and address data.
- Reviewing internal controls related to procurement.
- Using CaseWare IDEA data analytical software.

Appendix B

Data Reliability

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

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

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

Audit Observation Risk Rating

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



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

Appendix C

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this audit included review and testing of the design, implementation, and operating effectiveness of key internal controls relevant to the audit's objectives. In accordance with GAGAS, the CAD verified that the audit objectives and related controls identified address the five internal control components of the COSO framework. Although some control weaknesses were identified and are included in the Detailed Observations section of this report, none rose individually or cumulatively to the level of a Citywide internal control deficiency.

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

Acknowledgments

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

- Finance Department.
- Information Technology Department.

Surprise City Auditor Department

- **Vision**—The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.
- **Mission**—To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

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CITY OF SURPRISE Audit Committee Meeting

Council Meeting Date: April 25, 2024
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Discussion and action pertaining to the Solid Waste Operations Audit Report.

Motion:

I move to approve and distribute the Solid Waste Operations Audit Report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2023-2024 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 FY2023-2024 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. Secured Solid Waste Operations Audit Report
-



S U R P R I S E

A R I Z O N A

Solid Waste Operations Audit Report

To determine whether adequate and effective controls, risk management, and governance processes are in place over critical areas of operations within the context of the audit scope

March 18, 2024

Angela Hanson, Internal Auditor

City Auditor Department

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Executive Summary

As part of the City Auditor Department’s (CAD) FY2023-2024 Annual Audit Plan, an audit of Solid Waste Operations for fiscal year 2023—July 1, 2022, through June 30, 2023—was performed. The purpose of the audit was to determine whether adequate and effective controls, risk management, and governance processes were in place over critical areas of operations. The CAD has not previously audited Solid Waste Operations. We excluded recycling and bulk trash collection services from the audit scope.

Overall, we do not have any material findings within the scope of the audit. We reviewed fiscal year 2023 Waste Management invoices for errors. Although we identified some double charges and waste misclassification errors, these errors were identified by the Solid Waste Division and resolved with Waste Management before our audit. Since fiscal year 2023, the Solid Waste Division has developed a new process to identify and address errors in real-time with Waste Management. We also

reviewed the Waste Management Agreement and did not identify contractual obligation issues. Additionally, we reviewed fiscal year 2023 incident/accident reports for Solid Waste Division operators and determined that the Solid Waste Division followed established safety policies and procedures and took corrective actions when needed. We reviewed a judgmental sample of 17 or 52 percent, of the 33 current Solid Waste Division operators for credential and training documentation. We determined that the Solid Waste Division had sufficient documentation for the operators sampled. We also reviewed records within the context of the audit and did not identify issues with records retention.

Refer to Appendix A for more information about Solid Waste Operations.

Solid Waste Operations has areas of achievement

- ✓ Waste Management payments
- ✓ Waste Management contractual obligations
- ✓ Safety policies and procedures
- ✓ Driver supporting documentation
- ✓ Records retention

 Area of achievement

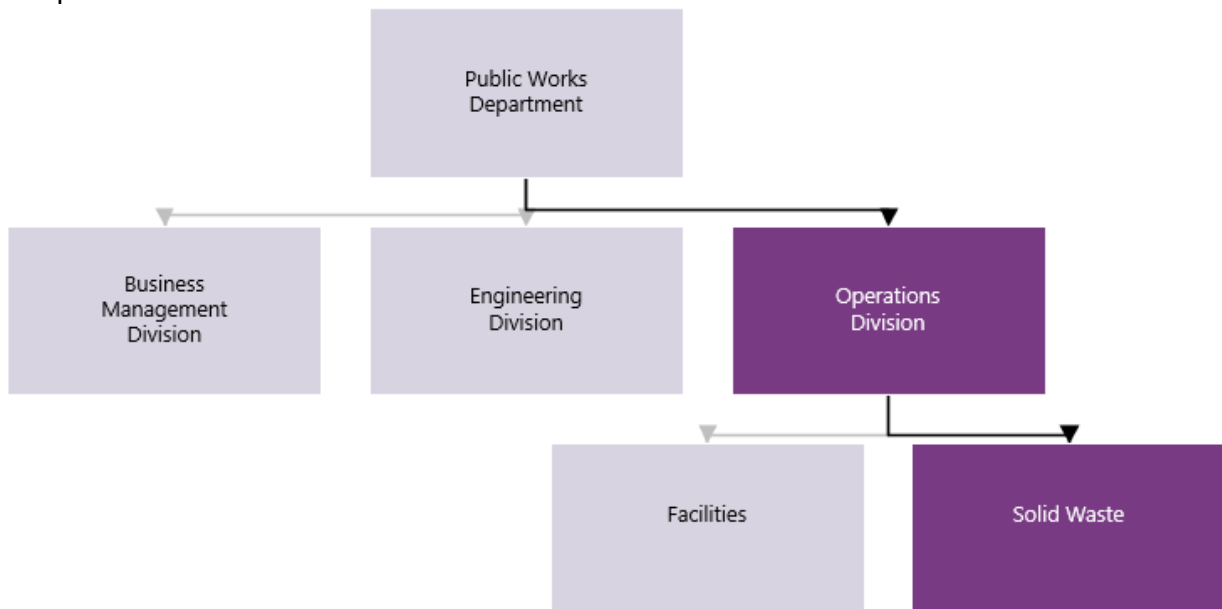
Appendix A

Background

The Solid Waste Division is part of the Public Works Department’s Operations Division, as shown in Figure 1.

Figure 1

Public Works Department organizational chart shows that the Solid Waste Division serves under the Operations Division

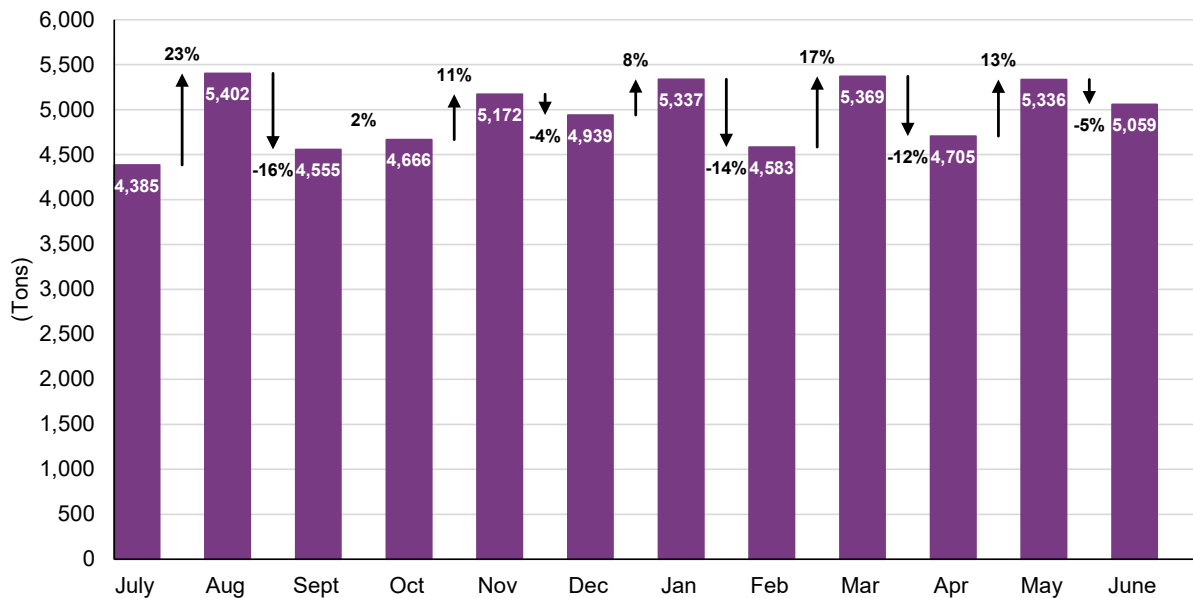


Source: City Auditor Department staff review of City organizational charts from fiscal year 2024.

The Solid Waste Division provides City sanitation customers weekly curbside trash, recyclable material, and scheduled bulk trash collection services. In 2002, the City entered into a 25-year agreement with Waste Management for disposal of solid waste transported by the City to Waste Management’s disposal site—the Northwest Regional Landfill. The Solid Waste Operations audit was limited to municipal Solid Waste Operations with Waste Management and excluded recycling and bulk trash collection services. In fiscal year 2023, the City disposed of almost 60,000 tons of municipal solid waste at Waste Management’s Northwest Regional Landfill. We analyzed Waste Management’s monthly invoices, as shown in Figure 2.

Figure 2

Fiscal year 2023 municipal solid waste by disposal month shows the greatest variance between July and August in which the fewest and most tons of Municipal Solid Waste were disposed of, respectively



Source: City Auditor Department staff analysis of Waste Management invoices from fiscal year 2023.

Objectives, Scope, and Methodology

We conducted a performance audit of Solid Waste Operations pursuant to Ordinance No. 2016-26, which grants the City's internal audit program authority to conduct City internal audits. This audit focused on fiscal year 2023 Solid Waste Operations, and evaluated whether adequate and effective controls, risk management, and governance processes were in place within the context of the audit scope.

Specifically, the CAD evaluated whether:

- The Solid Waste Division made incorrect payments to Waste Management for landfill costs due to tonnage errors, misclassification of waste types, or inaccurate rate calculations in fiscal year 2023.
- The Solid Waste Division and Waste Management followed contractual obligations regarding the landfill in fiscal year 2023.
- The Solid Waste Division documented driver requirements and training per City and State policies in fiscal year 2023.
- The Solid Waste Division followed established safety policies and procedures in fiscal year 2023.
- The Solid Waste Division maintained documentation per the State's record retention policies.

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

- Reviewing applicable City policies, municipal code, laws, and regulations.
- Interviewing Solid Waste Division staff.
- Reviewing the Waste Management Agreement.
- Reviewing fiscal year 2023 Waste Management invoices.

- Reviewing driver credentials and training documentation.
- Reviewing fiscal year 2023 driver incident/accident reports.
- Touring the Solid Waste Public Works Operations Facility.
- Using CaseWare IDEA data analytical software.

Appendix B

Data Reliability

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

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

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this audit included review and testing of the design, implementation, and operating effectiveness of key internal controls relevant to the audit's objectives. In accordance with GAGAS, the CAD verified that the audit objectives and related controls identified address the five internal control components of the COSO framework. Although some control weaknesses were identified and are included in the Detailed Observation section of this report, none rose individually or cumulatively to the level of a Citywide internal control deficiency.

This project was not intended or designed to be a detailed study of every relevant procedure, regulation, system, or transaction related to Solid Waste Operations. As such, this report may not include all areas that may need improvement.

Acknowledgments

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

- Public Works Department.

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**CITY OF SURPRISE
Audit Committee Meeting**

Council Meeting Date: April 25, 2024
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Discussion and action pertaining to the Continuous Auditing: Citywide Procurement Cards Audit Report.

Motion:

I move to approve and distribute the Continuous Auditing: Citywide Procurement Cards Audit Report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2023-2024 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 FY2023-2024 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. FINAL Secured - P-Card Audit Report
-



S U R P R I S E
A R I Z O N A

**Continuous Auditing: Citywide
Procurement Cards
Audit Report**

February 29, 2024

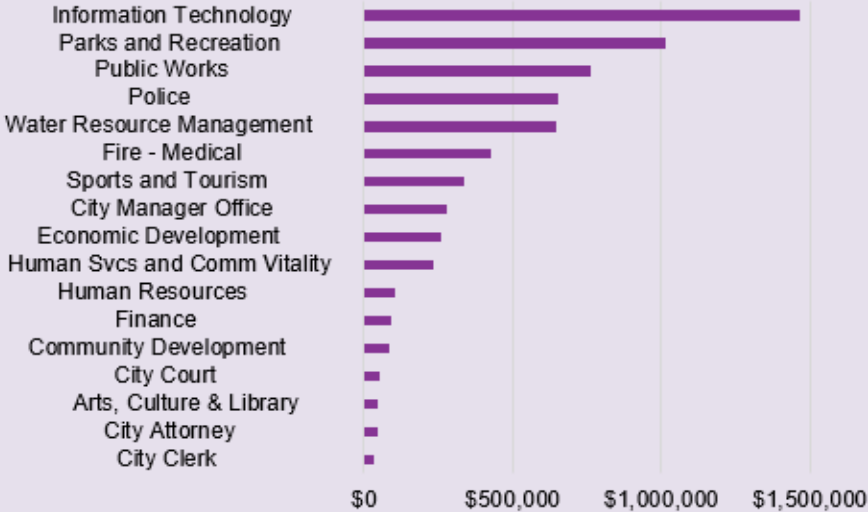
Internal Audit Report

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<i>High-Risk Observations</i>	<i>Page 4</i>
<i>Moderate-Risk Observations</i>	<i>Page 6</i>

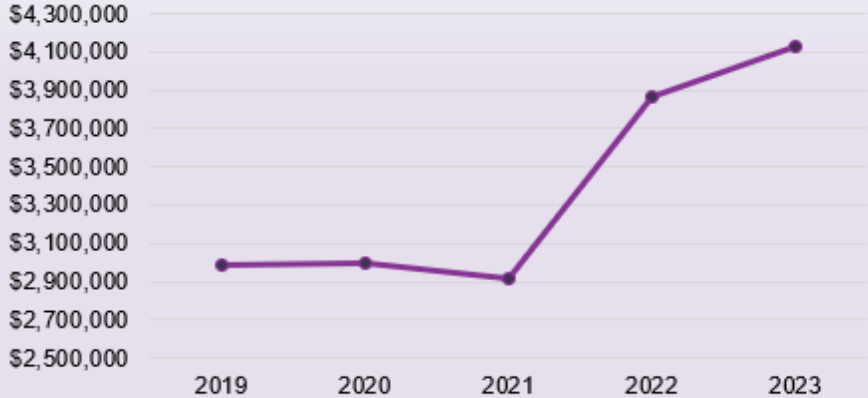
Appendices

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Total P-Card Spending by Department
January 1, 2022 - June 30, 2023



Five-Year P-Card Annual Spending Trend
by Fiscal Year



Executive Summary and Observations

Executive Summary

As part of the City Auditor Department's (CAD) FY2023-2024 Audit Plan, an audit of procurement card (P-Card) transactions for the period of January 1, 2022, through June 30, 2023, was performed to determine whether the P-Card transactions and documentation were in compliance with City of Surprise (City) policies. The audit was part of the CAD's continuous auditing program in which professional judgment and CaseWare IDEA software were used to periodically test a sample of high-risk transactions based on the nature of the transaction type. Previous P-Card transaction audits were conducted in FY2015-2016, FY2018-2019, and FY2022-2023.

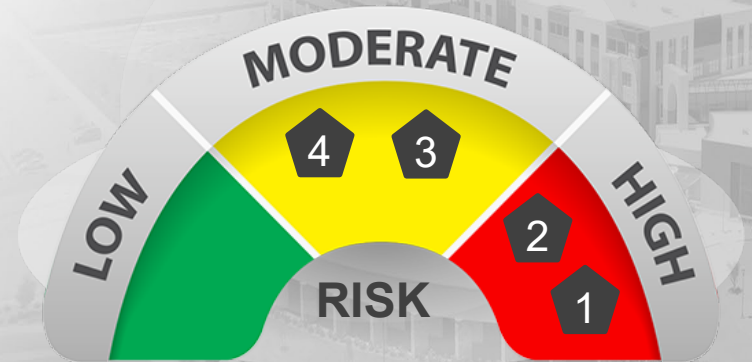
The audit demonstrates the continued need to strengthen P-Card controls and accountability of the cardholders, approvers, and department management. Although the Accounts Payable Guidelines require monthly reviews of P-Cards to see if employees have separated from employment, this was not happening regularly, resulting in several P-Cards not being deactivated timely. In addition, the audit found that not all P-Cards have an appropriate approver assigned to them. The percentage of P-Cards with documentation exceptions has significantly decreased from what was identified in the prior audit of 55% down to 6%, where auditors found some P-Cards did not have a Procurement Card User Agreement maintained properly. Departments maintaining appropriate documentation for individual transactions continued to be an area of improvement, as identified in previous audits. The Detailed Observations Section and Appendix D summarize the audit findings and recommendations.

The CAD's analytical procedures and judgmental sample testing indicate that the City has documented controls to manage the P-Card Program effectively. The lack of appropriate monitoring and review of transactions and not following established policies and procedures weaken the controls and increase the potential of not identifying fraud and correcting errors promptly, if at all.

Observations

1. P-Cards should be deactivated when employees separate from City employment.
2. All P-Cards must have an appropriate approver assigned to review transactions.
3. Procurement Card User Agreement Forms need to be signed and maintained according to City policy.
4. Departments need to be held accountable for non-compliance with P-Card policies.

Observation Risk Rating



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

Detailed Observation – High-Risk

Observation	Recommendation	Management Response
<p>1 – P-Cards should be deactivated when employees separate from City employment.</p> <p>When an employee separates from City employment, the department is responsible for collecting the P-Card and reporting the separation to the Accounts Payable (AP) Department. The Accounts Payable Guidelines require the AP Department to immediately deactivate any active P-Cards for terminated employees. AP then should monthly cross-reference all active P-Card holders against a Finance Termination Report to verify all cards for employees that have separated from employment have been deactivated. However, according to Finance, this report is not being pulled monthly. They will try to pull the report quarterly but might miss doing this during busy times.</p> <p>CAD identified and tested 115 P-Cards that were associated with employees who had separated from employment with the City to determine if the P-Cards were deactivated according to policy. Two P-Cards were identified where the employees separated from employment in August 2023, and while there were no charges after they left, the P-Cards were still active as of January 8, 2024. During the time of the audit, both these P-Cards have been deactivated by Finance and they stated they have reviewed all other P-Cards to verify all P-Cards for employees that have separated from employment since 2020 have been closed.</p> <p>Risk: P-Cards left active when employees have separated from employment could be used inappropriately or fraud could occur.</p>	<p>Finance should:</p> <p>A. Ensure that the P-Cards are reviewed at least monthly to deactivate any P-Cards for employees that have separated from City employment.</p>	<p>A. We concur with the recommendation. The accounting manager will compare terminations and active P-Cards monthly. Estimated completion: May 30, 2024.</p>

Detailed Observation – High-Risk

Observation	Recommendation	Management Response
<p>2 – All P-Cards must have an appropriate approver assigned to review transactions.</p> <p>According to the Accounts Payable Guidelines, each City department is responsible for entering and approving the invoices from vendors within the City’s financial system. The Procurement Card Standard Operating Procedure (SOP) requires that “Approvers will review all cardholder transactions ensuring appropriate use is maintained, and required documentation is provided.” In order for P-Card transactions to be properly reviewed, each P-Card should have an appropriate approver who is familiar with the transactions to review them properly.</p> <p>CAD judgmentally selected 72 of 393 P-Cards to test if the approvers listed in Munis are appropriate to review the P-Card transactions. As of the time of the audit, there were 13 P-Cards that did not have an approver listed in Munis. Some of the P-Cards were entered into Munis incorrectly without an approver, and some had the approver inappropriately put in the wrong field but they were not being reviewed to catch this. As a result, these were being automatically approved in Finance instead of having a department approver first. Five of these P-Cards have been closed, but eight of these P-Cards are still active. During the time of the audit, Finance updated all the active P-Cards to ensure an approver was added.</p> <p>Risk: With no approver, there is a risk of fraud or charges that are not allowable by City policies occurring on those P-Cards and not being caught timely.</p>	<p>Finance should:</p> <p>A. Develop a process to review information for new P-Cards entered and periodically check P-Card approvers to ensure they are updated and appropriate.</p>	<p>A. We concur with the recommendation. The accounts payable lead will review P-Card approvers monthly to ensure that every cardholder has an appropriate reviewer. Estimated completion: May 30, 2024.</p>

Detailed Observation – Moderate-Risk

Observation	Recommendation	Management Response
<p>3 – Procurement Card User Agreement Forms need to be signed and maintained according to City policy.</p> <p>The Procurement Card SOP states that “The P-Card applicant must bring a signed Procurement Card User Agreement form and personal ID before the P-Card will be issued.” Then they are required to sign the Procurement Card User Agreement again annually or anytime a new P-Card is issued. The Accounts Payable Department is responsible for retaining all cardholder user agreements and authorizations in the cardholder’s profile.</p> <p>CAD judgmentally selected 72 of 393 P-Cards to test for proper documentation. Of these, four P-Cards were identified without any Procurement Card User Agreement Forms maintained. Since these were not uploaded into Munis, and there was no process to maintain these in Accounts Payable files, these forms were unable to be located. During the audit, Finance obtained signed copies of the Procurement Card User Agreements for the four P-Cards that were missing this form.</p> <p>Risk: If cardholders do not sign a Procurement Card User Agreement Form, they may be unaware of the requirements associated with having a P-Card and could potentially misuse the P-Card.</p>	<p>Finance should:</p> <p>A. Develop a process to ensure that Procurement Card User Agreements are uploaded and maintained appropriately.</p>	<p>A. We concur with the recommendation. The Accounts Payable Division will ensure that the signed P-Card agreements are attached to the employee file in Munis and saved on the Finance secured drive. Estimated completion July 31, 2024.</p>

Detailed Observation – Moderate-Risk

Observation	Recommendation	Management Response
<p>4 – Departments need to be held accountable for non-compliance with P-Card policies.</p> <p>The City has a Procurement Card SOP, as well as other City policies and procedures to provide guidance to departments on allowable purchases and required documentation. Annually, the Finance Department requires cardholders to read the Procurement Card SOP and evidence their review by signing a User Agreement Form. However, during interviews with cardholders, approvers, and department management, many indicated they did not fully understand or were unaware of some of the P-Card requirements.</p> <p>The CAD noted several transactions that did not comply with City policies and procedures. Exceptions were followed up with the cardholders, the approvers, or department management. Refer to Appendix D – Departmental Findings Detail for additional information and management’s response. In summary, these findings include:</p> <ul style="list-style-type: none"> • A split transaction of \$8,469 did not have a purchase order. • 11 of 1,207 tested transactions did not include the proper receipt or used duplicate receipts. • 15 of 50 tested gift card transactions did not include the gift card request form. • 2 of 50 tested gift card transactions completed the gift card request form after the purchase instead of before. • 4 of 106 tested transactions purchasing food did not include an itemized receipt. • 5 of 106 tested transactions purchasing food did not include a list of attendees or a flyer of the event. • 1 of 36 tested transactions for car rentals included a purchase of loss damage waiver. • 1 of 79 tested transactions from a hotel included a purchase of a personal item, but no documentation was available showing if this was corrected or not. <p>Risk: When policies and procedures are not followed, inappropriate expenditures could take place, leading to the potential for waste or abuse of City funds.</p>	<p>See Appendix D – Departmental Findings Detail for individual City department recommendations and management responses.</p>	

Appendix A - Background, Objectives, and Scope

Background

The citywide P-Card Program is designed as a fast, flexible, economical, and efficient alternative for purchasing small-dollar (under \$5,000) goods or services. At the time of the audit, the City had 393 active P-Cards. This is an approximate increase of 25% from the August 2022 audit report, which reported over 300 active P-Cards. This number continuously changes as staff separate from the City or transfer to different City departments or positions. P-Cards are used to spend an average of over \$350,000 monthly on City purchases.



The Finance Accounts Payable Division is primarily in charge of the overall administration of the P-Card Program. The Procurement Card SOP provides cardholders, approvers, and department directors with guidelines on effectively managing City issued P-Cards in compliance with City policies and procedures. A workflow process is established in Munis that requires all appropriate documentation for each P-Card purchase to be saved in Munis and was made in compliance with City policies and procedures. The approver must also review all purchases to ensure the documentation was appropriate and in compliance with City policies and procedures.

Audit Objectives

The objective of the audit was to assess the internal controls, processes, and procedures of the P-Card Program to ensure that cardholders, departmental liaisons, approvers, and the Program Administrator comply with applicable City policies and procedures when using City issued P-Cards.

Scope / Methodology

The CAD developed continuous auditing procedures around high-risk transactions including the City's P-Card Program. The CAD obtained P-Card transaction data from the Vendor's system and Munis for the period January 1, 2022, through June 30, 2023, for review and assessment of compliance with City policies and procedures. Audit procedures included:

- Reviewing applicable City policies.
- Reviewing Vendor system and Munis transactions and P-Cards for the audited period.
- Using CaseWare IDEA data analytical software.
- Sampling transactions that appeared high-risk.
- Interviewing cardholders, approvers, Finance and departments involved with P-Cards.

Appendix B – Data Reliability and Risk Rating

Data Reliability

The data utilized for the work performed was either obtained from Munis, the City's financial system of record, or obtained directly from the P-Card Vendor's system. The CAD reconciled the P-Card Vendor's system data to Munis data with some summary transactional exceptions.

Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Annual Comprehensive Financial Report (ACFR) performed by the City's external auditor.

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

Audit Observation Risk Rating

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



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

Appendix C – Standards and Acknowledgements

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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

Acknowledgements

CAD appreciates the time City staff contributed to this review. CAD would like to take this opportunity to thank all of the departments and individuals involved in the Citywide Procurement Cards Audit for their considerable cooperation.

We received input and assistance from the following:

- Citywide departments
- Finance Department

Auditor: Melissa Moreno, Internal Auditor - Sr.

Surprise Internal Audit

Vision

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

Mission

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

For more information or to contact the City Auditor Department:
[City Auditor | Surprise, AZ - Official Website \(surpriseaz.gov\)](http://surpriseaz.gov)

Appendix D - Departmental Findings Detail

Department	Transaction Date	Merchant/Source	Transaction Amount	City Policy/Procedure	Finding Description	Management Response
City Manager Office	2/5/2022	FRY'S FOOD & DRUG STORES	\$ 150.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	At the time I was in City Manager's Office I was unaware of a gift card policy, nor had it been necessary, until an elected official wanted to have some gift cards included in raffle prizes for signing up for Ride Choice at a few of D2 Community meetings and for DUSD Essay contest winners. After finding out the policy, I did my best to rectify as much as possible. This was a one-off situation, should not happen often in the future especially since DUSD Essay contest is now under Parks & Recreation.
	8/17/2022	FRY'S FOOD & DRUG STORES	\$ 50.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	
	8/17/2022	FRY'S FOOD & DRUG STORES	\$ 30.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	
	2/13/2023	FRY'S FOOD & DRUG STORES	\$ 32.03	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	
Economic Development	3/31/2022	AMK SURPRISE STADIUM	\$ 441.98	Procurement Card Policy - "The cardholder must attach a list of the attendees for whom the food was purchased and the business purpose. When food is purchased for events open to the general public, a flyer or notice of the event is required."	No list of attendees or flyer.	Thank you for the opportunity to provide insight on this matter. The team had a list of attendees and a business purpose for each event at Surprise Stadium and in the future will ensure that these items are more explicit when providing documentation for the expenses.
	4/4/2022	AMK SURPRISE STADIUM	\$ 1,568.70	Procurement Card Policy - "The cardholder must attach a list of the attendees for whom the food was purchased and the business purpose. When food is purchased for events open to the general public, a flyer or notice of the event is required."	No list of attendees or flyer.	
Fire - Medical	7/10/2022	COURTYARD BY MARRIOTT	\$ 203.98	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Same receipt attached to two transactions - should have had two unique receipts	The person who does the Wildland billing and reconciles the P-Card for the Wildland team has been spoken to about the duplicate receipt copy and will be more careful in checking the Wildland receipts, especially when there are multiple charges for the same amount. I too will be more diligent in checking these charges. The Wildland team will be reminded of the importance of the hotel receipts. All card reconcilers have been asked to send their P-Card holders an email reminding them of the importance of accurate receipts. If they are not already doing so, the reconcilers will be emailing the individual cardholders a copy of the monthly card statement as soon as the reconciliation period opens. This will allow the cardholder to verify all receipts are accounted for and match the amounts that were charged before reconciliation begins.
	7/10/2022	COURTYARD BY MARRIOTT	\$ 203.98	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Same receipt attached to two transactions - should have had two unique receipts	
Human Resources	1/12/2022	FRY'S FOOD & DRUG STORES	\$ 1,800.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	HR Director provided re-training for staff on P-Card use and gift card procedures on February 7, 2024 during monthly staff meeting.
	2/6/2022	SAFEWAY #1511	\$ 900.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	
	2/24/2022	FRY'S FOOD & DRUG STORES	\$ 1,050.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	
	5/12/2022	BASHAS' #137	\$ 100.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	
	12/19/2022	FRY'S FOOD & DRUG STORES	\$ 250.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	
	7/12/2022	BARRO'S PIZZA	\$ 158.39	Procurement Card Policy - "Itemized receipts are required for all food/restaurant purchases."	No itemized receipt.	
	8/16/2022	AFV-CORPORATE OFFICE	\$ 197.10	Procurement Card Policy - "Itemized receipts are required for all food/restaurant purchases."	No itemized receipt.	
	11/4/2022	PELRA IL	\$ 31.67	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Same receipt attached to two transactions - should have had two unique receipts	
	11/4/2022	PELRA IL	\$ 31.67	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Same receipt attached to two transactions - should have had two unique receipts	
	1/5/2023	SAFEWAY #2699	\$ 40.00	City of Surprise Gift Cards and Gift Certificates Policy - "Department Directors or his/her designee will authorize purchases of gift cards for distribution to City employees and non-employees in advance of purchase by their signature on the Gift Card Request Form."	Gift Card Request form was filled out after the purchase of cards was already made.	
4/25/2023	FAT CATS SURPRISE	\$ 300.00	City of Surprise Gift Cards and Gift Certificates Policy - "Department Directors or his/her designee will authorize purchases of gift cards for distribution to City employees and non-employees in advance of purchase by their signature on the Gift Card Request Form."	Gift Card Request form was filled out after the purchase of cards was already made.		

Appendix D - Departmental Findings Detail

Department	Transaction Date	Merchant/Source	Transaction Amount	City Policy/Procedure	Finding Description	Management Response
Human Svcs and Comm Vitality	1/11/2023	WAL-MART STORES INC.	\$ 219.76	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	Although all gift cards were verbally approved by management staff, HSCV P-Card holders overlooked the required form for approval to purchase. Management staff holds a monthly Leadership Team meeting and at the February meeting all were reminded of gift card policy and procedures and the requirements of the form to be completed PRIOR to purchase of gift cards. In addition, a follow up email was sent to all P-Card holders with the same information. All gift cards purchased by HSCV are documented, kept in dual control and accounted for when dispersed.
	4/3/2023	TARGET 00013359	\$ 80.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was completed.	
Information Technology	2/5/2022	DELL MARKETING LP	\$ 253.98	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Incorrect receipt attached	IT will review attachments to ensure they match the charge described.
	2/5/2022	DELL MARKETING LP	\$ 253.98	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Same receipt attached to two transactions - should have had two unique receipts	
	2/5/2022	DELL MARKETING LP	\$ 253.98	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Same receipt attached to two transactions - should have had two unique receipts	
	6/28/2022	BEST BUY 00007872	\$ 1,030.74	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Same receipt attached to two transactions - should have had two unique receipts	
	6/28/2022	BEST BUY 00007872	\$ 1,030.74	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Same receipt attached to two transactions - should have had two unique receipts	
Parks and Recreation	11/19/2022	CROWNE PLAZA KANSAS CI	\$ 582.63	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Same receipt attached to two transactions - should have had two unique receipts	Our team has been made aware that they must have unique documentation for P-Card transactions. Approvers have also been reminded to deny transactions that do not have unique receipts until rectified.
	11/19/2022	CROWNE PLAZA KANSAS CI	\$ 582.63	Procurement Card Policy - "Each transaction needs to be supported by an itemized receipt."	Same receipt attached to two transactions - should have had two unique receipts	
Police	2/15/2022	LOPEZ PROPERTIES	\$ 119.74	Procurement Card Policy - The cardholder must attach a list of the attendees for whom the food was purchased and the business purpose. When food is purchased for events open to the general public, a flyer or notice of the event is required."	No list of attendees or flyer.	The Business and Grants Manager has addressed these findings in the Executive Staff, Manager and Supervisors meetings. The Business and Grants Manager and or delegate will review P-Card transactions and reject transactions missing required documentation. The Business and Grants Manager and or delegate also plan to provide additional training and provide examples of proper supporting documentation.
	2/19/2022	BASHAS' #137	\$ 23.07	Procurement Card Policy - The cardholder must attach a list of the attendees for whom the food was purchased and the business purpose. When food is purchased for events open to the general public, a flyer or notice of the event is required."	No list of attendees or flyer.	
	2/15/2022	PAPA JOHN'S #4900	\$ 277.95	Procurement Card Policy - "Itemized receipts are required for all food/restaurant purchases."	No itemized receipt.	
	7/14/2022	BUDGET RENT A CAR	\$ 318.33	City of Surprise Travel Policy - "Additional liability and damage insurance provided by rental car agencies is not authorized."	Included "loss damage waiver" for a total of \$32.99.	
Public Works	5/11/2022	RIO MIRAGE CAFE	\$ 60.38	Procurement Card Policy - "Itemized receipts are required for all food/restaurant purchases."	No itemized receipt.	What I did to change was make sure I always get an itemized receipt every time I use my P-Card at any store. This has not happened since this first and only time.
	4/12/2023	FRY'S FOOD & DRUG STORES	\$ 425.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was submitted with the monthly P-Card reconciliation.	The Gift Card Request Form was always submitted to Finance before Final Approval. However, The Transportation Department will ensure that each time a gift card is purchased, the Gift Card Request Form is attached to the P-Card Reconciliation.
	4/12/2023	SPROUTES FARMERS MAR	\$ 25.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was submitted with the monthly P-Card reconciliation.	
	4/12/2023	UPTOWN ALLEY II, LLC	\$ 25.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was submitted with the monthly P-Card reconciliation.	
	5/22/2023	FRY'S FOOD & DRUG STORES	\$ 600.00	City of Surprise Gift Cards and Gift Certificates Policy - "The Gift Card Request Form, properly authorized, must accompany the monthly P-Card reconciliation along with the store receipt as support for the purchase."	No Gift Card Request form was submitted with the monthly P-Card reconciliation.	
Sports and Tourism	12/1/2022	BABBO ITALIAN EATERY S	\$ 262.45	Procurement Card Policy - The cardholder must attach a list of the attendees for whom the food was purchased and the business purpose. When food is purchased for events open to the general public, a flyer or notice of the event is required."	No list of attendees or flyer.	Management has made sure when food is purchased for business purposes, the list of attendees are included. If food was purchased for the public or an event, an event flyer is included with the receipt.
	1/23/2023	COURTYARD BY MARRIOTT	\$ 12.00	City of Surprise Travel Policy - "Employees will be responsible for all incidental costs associated with his/her occupancy [. . .] If an employee who has received per diem charges their meal to a P-card, the employee must reimburse the City"	One personal purchase included from hotel that was covered by per diem, but department could not show this was reimbursed.	Management has spoke with the employee and explained that per diems are used for food and employee understood and was willing to reimburse the cost. Moving forward, management closely reviews travel reconciliations to ensure costs covered by per diems are not used on employees P-Cards.
Water Resource Management	2/6/2023	NORTH AMERICAN LUBRICANTS	\$ 4,234.54	Procurement Card Policy - "Transactions greater than \$5,000 require issuance of a purchase order or check request. Purchases cannot be split in order to fall below this limit."	Split transaction exceeded the limit of \$5,000, but no PO was issued.	The department's P-Card process will be updated to indicate that transactions can not be split and any purchases where POs have been issued should be paid with a check request. This process allows for a purchase order to be referenced. P-Card holders will be notified of this change.
	2/6/2023	NORTH AMERICAN LUBRICANTS	\$ 4,234.54	Procurement Card Policy - "Transactions greater than \$5,000 require issuance of a purchase order or check request. Purchases cannot be split in order to fall below this limit."	Split transaction exceeded the limit of \$5,000, but no PO was issued.	



**CITY OF SURPRISE
Audit Committee Meeting**

Council Meeting Date: April 25, 2024
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Discussion and action pertaining to the FY2023-2024 Risk Assessment Report.

Motion:

I move to approve the FY2023-2024 Risk Assessment Report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2023-2024 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

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

Policy Compliant:

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

Financial Impact:

There is no financial impact associated with this item.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. FY2023-2024 Risk Assessment
-



Citywide Risk Assessment

FY2023-2024

City Auditor Department
Carol Holley, City Auditor
March 29, 2024

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I. INTRODUCTION

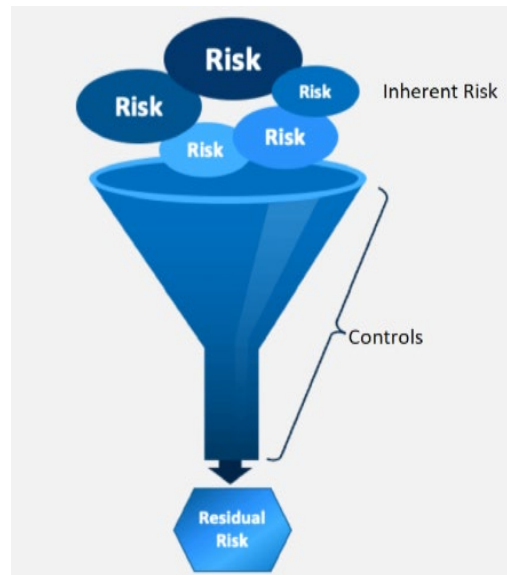
Government Auditing Standards and the Institute of Internal Auditor Standards encourage the chief audit executive to establish a risk-based approach to determine the priorities for internal audit activities. The City Auditor Department (CAD) has completed the City of Surprise (City) FY2023-2024 Citywide Risk Assessment to help identify and prioritize audit engagements included in the FY2024-2025 Annual Audit Plan.

Risk can be defined as the possibility of an event occurring that could negatively impact achieving an organization’s objectives. Risk is measured in terms of impact and likelihood. Developing a risk assessment requires auditors to identify and assess the likelihood and potential impact of various risks to the organization.

This report provides an overview of the FY2023-2024 Citywide Risk Assessment process. The risk assessment results were used to help form a foundation for allocating CAD resources. A risk-free environment is nearly impossible to achieve. However, many risks can be reduced, mitigated, or eliminated. It is not the intent, nor was the FY2023-2024 Citywide Risk Assessment designed to capture “all” potential risks associated with City operations.

II. BACKGROUND

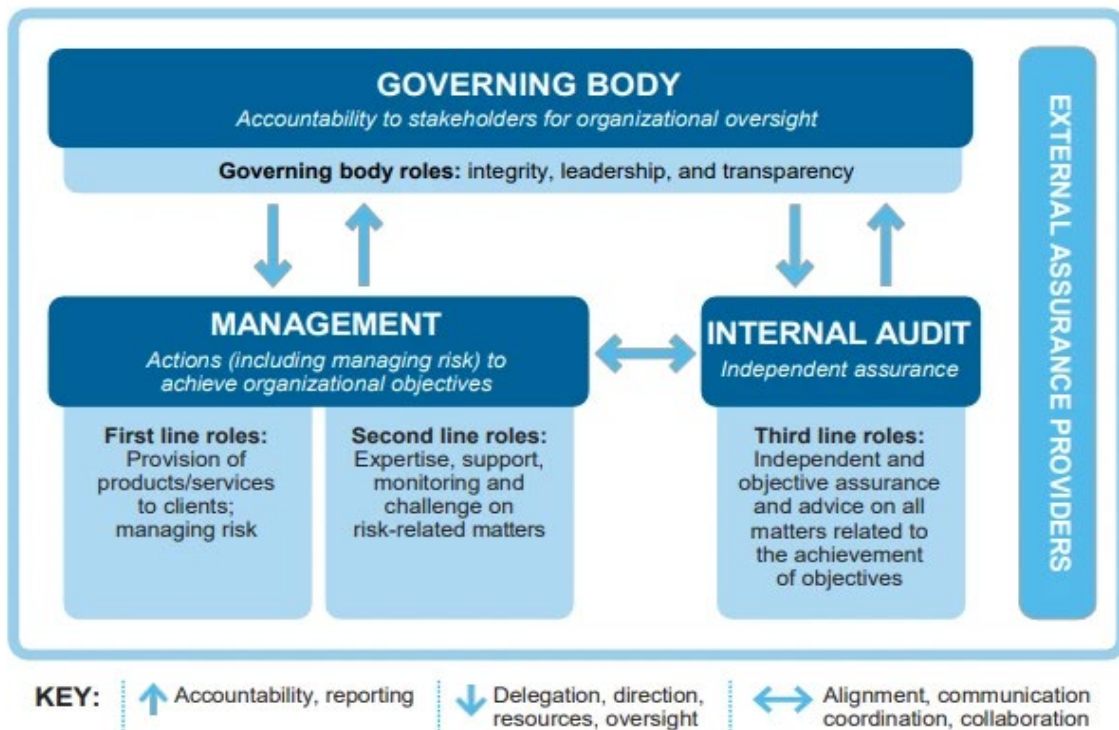
During the planning phase of an audit engagement, CAD staff must consider inherent and residual risks. Inherent risk is based on the nature of the activity or transaction without mitigating controls. Residual risk relates to the design and effectiveness of management controls to offset inherent risk. An organization can accept some risk in whole or in part or mitigate the risk to an acceptable level. One option to reduce risk is through the implementation of adequate internal controls.



The Committee of Sponsoring Organizations (COSO), a joint initiative of five private sector organizations (American Accounting Association, American Institute of CPAs, Financial Executives International, Associations of Accountants and Financial Professionals in Business, and the Institute of Internal Auditors), defines internal control as a process, affected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in three fundamental categories:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

City management is responsible for establishing and maintaining adequate controls to offset risks so that appropriate goals and objectives are met, laws and regulations are followed, and management and financial information are reliable and adequately reported. In 2020, the Institute of Internal Auditors (IIA) spearheaded a team of professional organizations to update the Three Lines of Defense Model (Model). The Model is used as an example to clarify how specific roles related to risk control could be assigned and coordinated:



When the Model is appropriately structured and operates effectively, gaps in coverage and duplications of efforts are eliminated, resulting in a more effective approach to managing risk and controls.

Operational management is the first line of defense. They own and manage the organizational risks that can facilitate or prevent the achievement of objectives. The design and execution of the controls implemented to respond to risks lies within the role of the first line of defense.

The second line of defense serves as a management and oversight function that supports management by ensuring that risk and controls are effectively managed. The second line of defense provides specific levels of expertise, process excellence, and management monitoring.

As the third line of defense, internal audit provides assurance to the governing body and senior management on how effective the first and second lines of defense are in achieving risk management and control objectives. The third line of defense typically does not perform management functions to protect the internal auditor's objectivity and organizational independence.

III. OBJECTIVES, SCOPE, and METHODOLOGY

The objective of the FY2023-2024 Citywide Risk Assessment was to gain an understanding of the potential key financial, fiscal compliance, and other key business risks that threaten the City's achievement of its objectives and to develop a risk-based annual audit plan. FY2023-2024 financial data housed in the City's financial system (Munis), management questionnaires, line staff surveys, and the CAD staff's professional judgment were used to accomplish this objective. Based on results from the risk assessment, the City Auditor developed and prioritized the audit engagements for FY2024-2025 based on risk exposure, significance, and the quality of internal control environments that exist to mitigate risks.

In 2024, the Association of Certified Fraud Examiners released the 2024 Report to the Nations on Occupational Fraud and Abuse¹. The report is based on 1,921 occupational fraud cases investigated by Certified Fraud Examiners from 138 countries and territories. Government organizations on national, state/provincial, and local levels represented 15.4% (296 out of 1,921) of the reported cases. Local governmental organizations represented 23% of the 15.4% of cases related to government organizations. The top three schemes reported for overall government entities included:

- Corruption (Most common at the national level of government) - 56%
- Billing – 26%
- Noncash (e.g., an employee steals inventory or misuses confidential customer information) – 20%

Although it is not possible for an organization to eliminate the threat of fraud, having a strong system of internal controls, such as checks and balances, approvals, reviews, documented policies, procedures, etc., can help deter fraud and enhance the potential of detection. It is not the direct responsibility of the CAD to prevent fraud from happening within the City. The CAD strives to provide assurance to management and the executive team that City efforts are consistent with expectations. This is accomplished through the work completed as part of the annual audit plan. The FY2024-2025 Annual Audit Plan reflects the consideration of the top three government schemes in conjunction with the results from the

¹John Warren, J.D., CFE. 2024. *2024 Report to the Nations on Occupational Fraud and Abuse*. March 26, 2024. <https://legacy.acfe.com/report-to-the-nations/2024/>.

FY2023-2024 Citywide Risk Assessment in determining how to allocate auditing resources.

IV. RISK ASSESSMENT PROCESS

The development of the FY2023-2024 Citywide Risk Assessment included the following steps:

1) Identifying the audit universe and auditable units

An audit universe represents the potential range of all audit activities. These units generally include various programs, activities, functions, structures, and initiatives that collectively contribute to achieving the department's strategic objectives. For FY2023-2024, data was summarized by department names to effectively manage the number of auditable units. The risk assessment included the review of 17 auditable department units.

2) Conducting the Risk Assessment

A key component of the risk assessment process included input from the director of each audit unit. Auditable units were provided with a risk matrix worksheet and instructed to perform self-assessments in seven risk categories. CAD met one-on-one with directors when required to clarify worksheet data. The seven risk categories and their related risk factors are identified in Exhibit A.

One thousand three hundred ninety-nine (1,399) active City line employees were invited to participate in a three-question survey about opportunities for improvement and potential risk in their department. The survey did not include elected officials, appointed officials, executive management, or department directors. Responses from 14.7% (206 out of 1,399) of surveyed line employees were received and implemented in the risk assessment process where responses were applicable. The employee survey responses are summarized in Exhibit B.

3) Analyzing the information collected, developing a risk matrix, and drafting the FY2024-2025 Annual Audit Plan

Risk factors in the completed risk matrix worksheets were reviewed, assessed, and assigned a scoring factor. A three-point scoring range was utilized for each risk factor.

Each risk factor was grouped by applicable weighted risk categories, and a combined overall risk score was calculated for each auditable unit. Available

audit hours for FY2024-2025 were allocated to units with the highest risk ranking. Exhibit C identifies the auditable units based on risk ranking.

Based on the analysis, six audit engagements related to the assessment (totaling 4,200 audit hours) are included in the draft FY2024-2025 Annual Audit Plan, pending approval by the Audit Committee. See Exhibit D.

With the limited number of available audit hours, the CAD cannot conduct an audit engagement in every department. To compensate for this, the CAD will continue developing its Continuous Auditing Program (Program). The Program is designed to focus on citywide high-risk transactions, allowing the CAD to engage with every City department in some capacity.

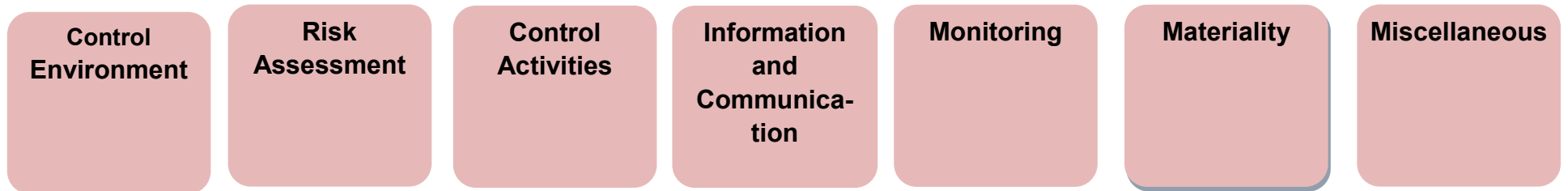
V. CONCLUSION

The FY2023-2024 Risk Assessment process provided a systematic method for identifying citywide auditable units and transactions based on risk. The process allowed the auditable units with the highest risk to materialize. Based upon the ranking, the FY2024-2025 Annual Audit Plan was developed with a priority focus on the highest risk ranked auditable units. A high-risk assessment ranking does not necessarily mean that there is a current or specific concern of fraud or wrongdoing in an area. Rather, the area may have a higher vulnerability to risk exposure when the risk assessment was completed. CAD aims to engage with all City departments through the FY2024-2025 Annual Audit Plan or the CAD's Program designed to focus on citywide high-risk transactions.

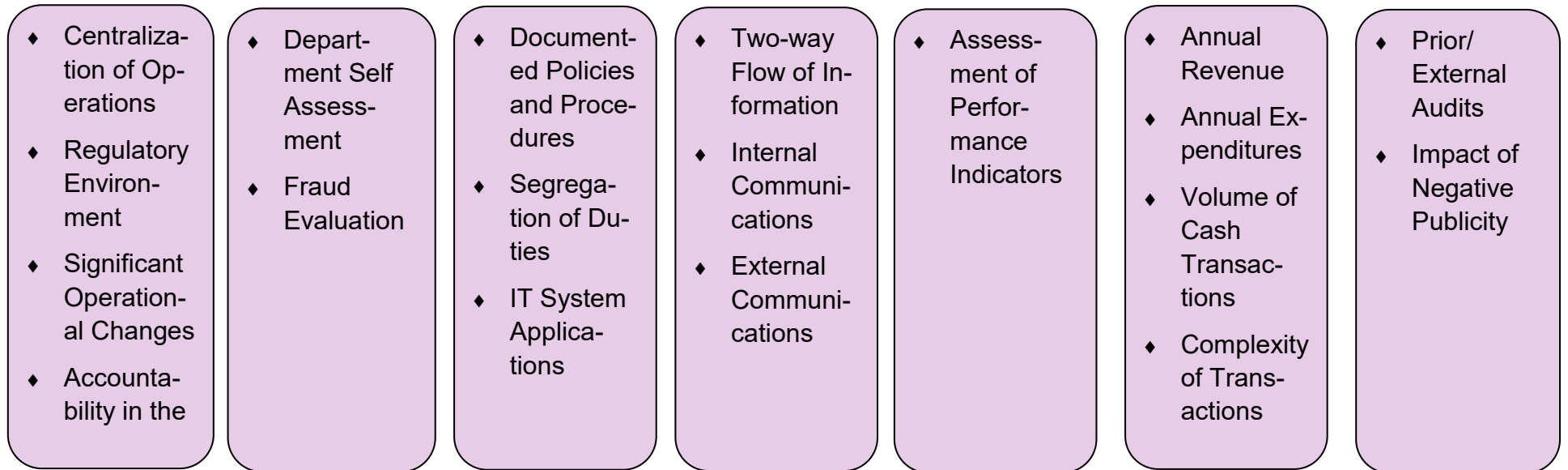
EXHIBIT A

FY 2023-2024 Citywide Risk Assessment Criteria

Risk Categories:



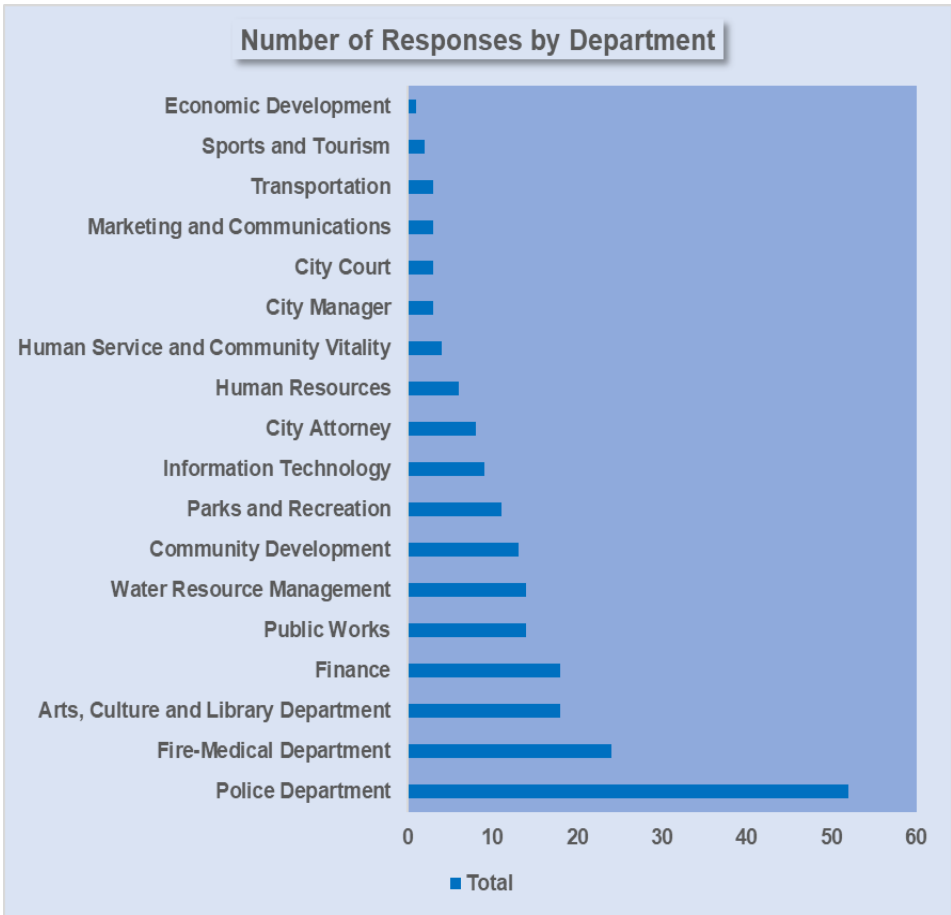
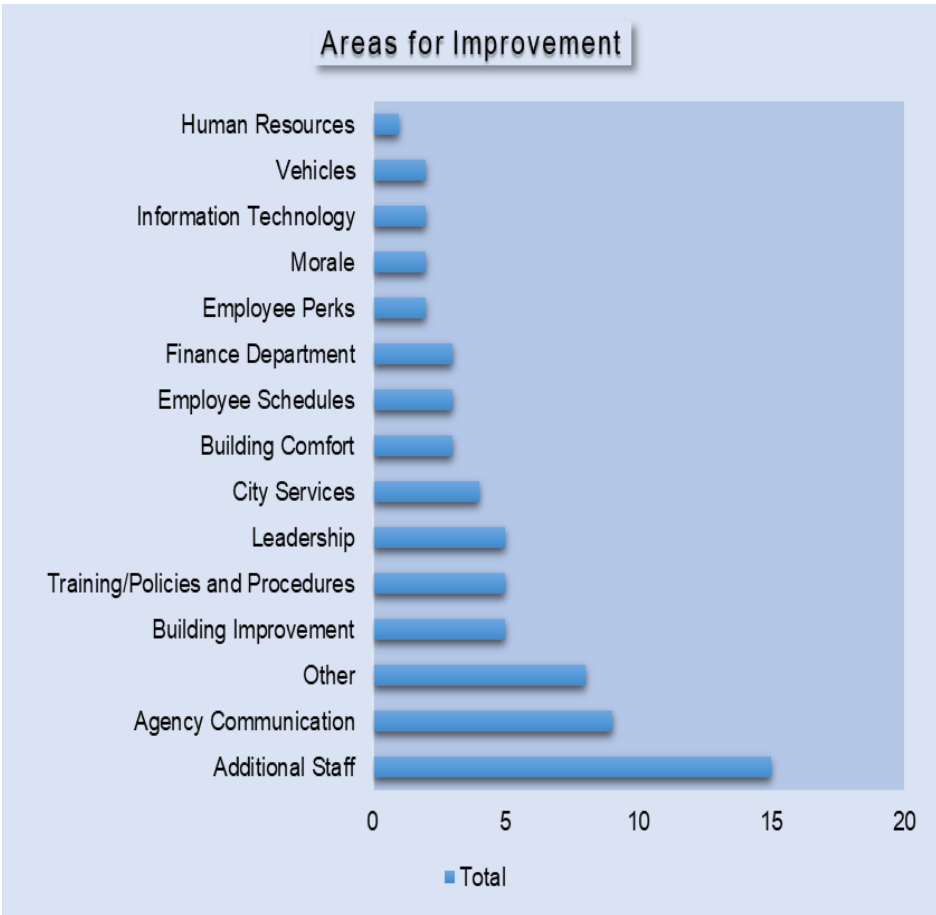
Risk Factors:



The Seven Risk Categories incorporates COSO's five internal control components as a method for evaluating the City's risk.

EXHIBIT B

FY 2023-2024 Line-Staff Survey Results



Positive Survey Comments Not Included in the Areas for Improvement Chart:

- Proud to work for the City of Surprise
- Area is kept up to day
- Leaders are forward thinkers and recognize when improvements are needed
- Staff work with amazing, caring, and ethical people

EXHIBIT C

Audit Units

Risk Ranking:

HIGH

- ◆ Community Development
- ◆ Parks and Recreation
- ◆ Police
- ◆ Sports and Tourism
- ◆ Transportation

Total Auditable Units = 5 (29.4%)

MEDIUM

- ◆ Arts, Culture, and Library
- ◆ City Clerk's Office
- ◆ Finance
- ◆ Fire-Medical
- ◆ Human Services and Comm Vi-
tality
- ◆ Information Technology

Total Auditable Units = 6 (35.3%)

LOW

- ◆ City Attorney's Office
- ◆ City Court
- ◆ Economic Development
- ◆ Marketing and Communications
- ◆ Public Works
- ◆ Water Resource Management

Total Auditable Units = 6 (35.3%)

Note:

1. Auditor's professional judgement was used to adjust overall risk rankings for departments with an audit history within the past five years. No adjustments were made for departments that have participated in an audit that occurred more than five years in the past.
2. Auditable units are in alphabetical order and are not referenced in order of risk ranking.

EXHIBIT D

FY2024-2025 Annual Audit Plan

Objective	Department
Determine whether permit and development revenue are accurately recorded and processed effectively and efficiently in compliance with city policies, procedures, and municipal code.	Community Development
Determine whether CIPs are managed effectively and efficiently in compliance with best practices, city policies and procedures, municipal code, and applicable laws and regulations.	Finance – CIP Division
Evaluate the process to ensure city parks are maintained safely in compliance with city policies and procedures and the municipal code.	Parks & Recreation
Determine whether sports programming revenue is accurately recorded and processed effectively and efficiently in compliance with city policies, procedures, and municipal code.	Parks & Recreation
Determine whether the City’s body-worn camera program is adequately designed and used in accordance with City policies and procedures and applicable state statutes.	Police
Determine whether the City of Surprise Tourism Fund (Fund) is being used effectively and efficiently to accomplish its key initiatives in compliance with City policies, procedures, municipal code, and Fund restrictions.	Sports & Tourism
Contingent on Available Audit Hours	
Citywide	Unannounced Cash Counts Continuous Auditing Program: <ul style="list-style-type: none"> • Payroll • Cell Phone Inactivity • IT Equipment Purchased through Mobile Invoice



**CITY OF SURPRISE
Audit Committee Meeting**

Council Meeting Date: April 25, 2024
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Presentation of the Compliance Connection Newsletter - Issue #4 and discussion of Fourth Quarter audit work and projects.

Motion:

No motion is required; discussion only.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2023-2024 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

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

Policy Compliant:

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

Financial Impact:

No financial impact.

Budget Impact:

No budget impact.

FTE Impact:

No FTE impact.

ATTACHMENTS:

1. Compliance Connection Issue #4
 2. Qrtly Audit CMTE 25Apr2024
-

Compliance Connection

Issue #4

April 26, 2024

Welcome to the City Auditor Department's fourth edition of **Compliance Connection**. This issue of **Compliance Connection** focuses on understanding audit issues and learning about what internal audit is.

Congratulations to Alex Ferruccio, our contest winner from Issue #3 of **Compliance Connection**.

Understanding Audit Issues

By Angela Hanson

If you have ever wondered what "audit issues" are, you are in the right place! Let's break it down. When we talk about audit issues, we are referring to findings uncovered during the audit process that differ from established standards, regulations, and department expectations. These can range from discrepancies in documentation to lapses in internal controls or compliance. Our role as auditors is to identify areas for improvement and offer practical recommendations to enhance effectiveness and mitigate risks.

You might be wondering why audit issues matter and what they mean for you. Think of them as opportunities for growth and enhancement. While some issues may be minor, others could significantly impact the City's operations, reputation, or bottom line. As your friendly city internal auditor, we aim to help the City navigate these challenges by providing actionable solutions to strengthen internal controls and improve processes. By embracing a proactive approach to addressing audit issues, we can cultivate a culture of accountability, continuous improvement, and resilience in the face of evolving risks!

What is Internal Audit?

By Melissa Moreno

The thought of auditors coming into your department might seem scary and daunting. However, internal auditors are actually part of the same organization and are here to help.

The Maricopa County Internal Audit Team put together a fun video clarifying what people think internal auditors do, and what they actually do: <https://www.youtube.com/watch?v=nqh1XE4aaEw>. Watch the video and then, to be entered into a drawing for a gift card, send an email to the City Auditor Department at SurpriseAuditor@surpriseaz.gov by Friday, 5/10/2024, with two benefits internal audit can provide, according to Mike Gee, the Maricopa County Internal Audit Director.

The purpose of an internal audit team is to provide independent and objective assurance and consulting services that add value and improve an organization's operations. Some of the many benefits that internal audit can offer include:

- Evaluate risks and provide information used to protect assets – Internal audit can help to identify risks, which can assist management in prioritizing risks, as well as evaluate environmental changes that might impact these risks.
- Ensure compliance with laws and regulations – Internal audit can review applicable laws and regulations, and help to ensure the department is in compliance with those. This will help ensure they are prepared for future external audits as well.
- Assess controls – Departments put controls in place to improve the efficiency and effectiveness of operations. With internal audit reviewing these, it can provide assurance that these controls are fulfilling their purposes and are adequate to reduce risks.
- Improve operation efficiency – By reviewing policies and procedures, internal audit can provide assurance that the department is following them appropriately and that they adequately reduce the department's risks. Internal audit can also provide suggestions to enhance policy and procedure effectiveness.
- Provide objective insight – You can't audit your own work without having a bias. An internal audit team is separate from other departments and not involved in their operations. As a result, they are able to provide the independence necessary to be objective.



SURPRISE
ARIZONA

Quarterly Audit Committee Meeting

April 25, 2024
3:00 PM



PROCUREMENT AUDIT

Objective: Determine whether the City's procurement process complies with City policies, procedures, municipal code, and laws and regulations

Background:

- Procurement mirrors system access and Munis workflow
- Exempt procurements are exempt from competitive bidding requirements
- *Request for Competitive Bidding Requirements Exemption* form documents exemptions

Magnitude:

- Sampled, randomly and judgmentally, 34 of 335 or 10 percent of exempt procurement contracts entered between July 1, 2021, and December 31, 2022
- Reviewed October 2023 system-generated access reports
- Reviewed Contract Approvals, Requisition Approvals, and PO Change Order Approvals workflows from July 1, 2021, to December 31, 2022

Key Opportunities:

- Develop procedures to ensure workflow, including forwarded workflow, is separated following the City's *Information Security General Controls Policies*
- Maintain procurement supporting documentation following *Procurement Guidelines* 601 and 2501 and State records retention policies



SOLID WASTE OPERATIONS AUDIT

Objective: Determine whether adequate and effective controls, risk management, and governance processes are in place over critical areas of operations within the context of the audit scope

Background:

- Solid Waste Division provides weekly curbside trash collection services
- City disposes its Municipal Solid Waste at Waste Management's Northwest Regional Landfill

Magnitude:

- 60,000 tons of Municipal Solid Waste were disposed of at the Northwest Regional Landfill in fiscal year 2023
- Waste Management invoiced the City almost \$1.87 million in fiscal year 2023
- Sampled, judgmentally, 17 or 52 percent of 33 current Solid Waste Division operators

Key Opportunities:

- No audit recommendations



P-CARD CONTINUOUS AUDITING

Objective: Determine whether the P-Card transactions and documentation were in compliance with City of Surprise policies.

Background:

- At the time of the audit, there were 393 active P-Cards in the City of Surprise.
- P-Cards are used for an average of \$350,000 of expenses each month.
- Munis has a workflow for P-Cards to track monthly expenditures, documentation and approvals.

Key Opportunities:

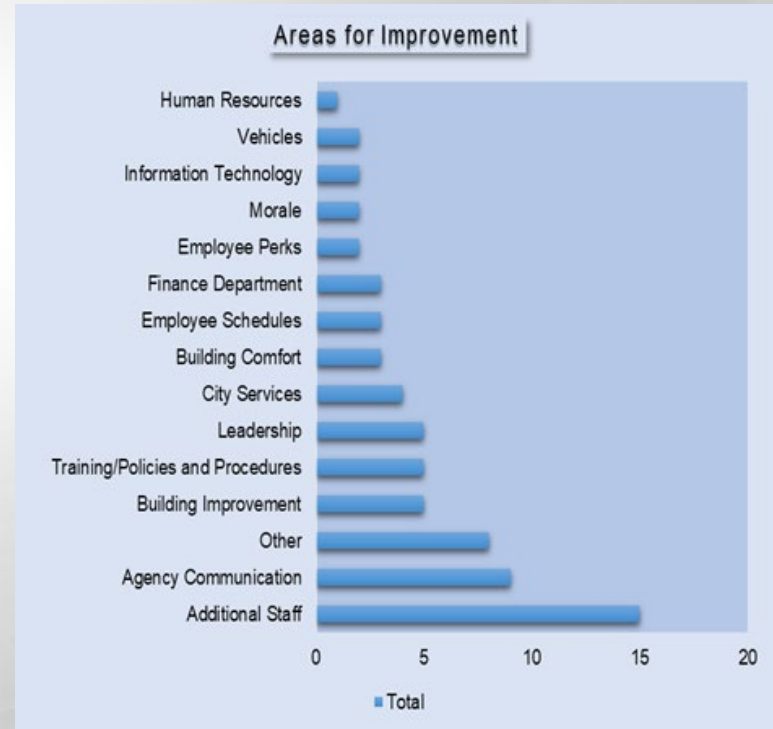
- Review P-Cards monthly to ensure that they are deactivated when employees separate from City employment.
- Review P-Card approvers to ensure they are appropriate.
- Ensure that Procurement Card User Agreements are uploaded and maintained appropriately.
- Departments need to ensure expenditures are appropriate and purchased according to City policies.

FY2023-2024 CITYWIDE RISK ASSESSMENT

Directors' Surveyed Risk Categories:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring
6. Materiality
7. Miscellaneous

Line-Staff Survey Results:





FY2024-2025 ANNUAL AUDIT PLAN

- 1) Community Development
- 2) Finance – CIP Division
- 3) Parks & Recreation
- 4) Parks & Recreation
- 5) Police
- 6) Sports & Tourism
- 7) Contingent on Available Audit Hours
 - ✓ Unannounced Cash Counts
 - ✓ Continuous Auditing Programs
 - Payroll
 - Cell Phone Inactivity
 - IT Equipment Purchased through Mobile Invoices

Compliance Connection



Understanding Audit Issues - AH

- Provides context for audit issues that might be identified during an internal audit, and how those can be helpful to departments to strengthen internal controls and improve processes.

What is Internal Auditing - MM

- Defines what an internal audit department is and gives examples of benefits that they can provide to the City and provides a video about internal audit from the Maricopa County Internal Audit Department:
- <https://www.youtube.com/watch?v=nqh1XE4aaEw>

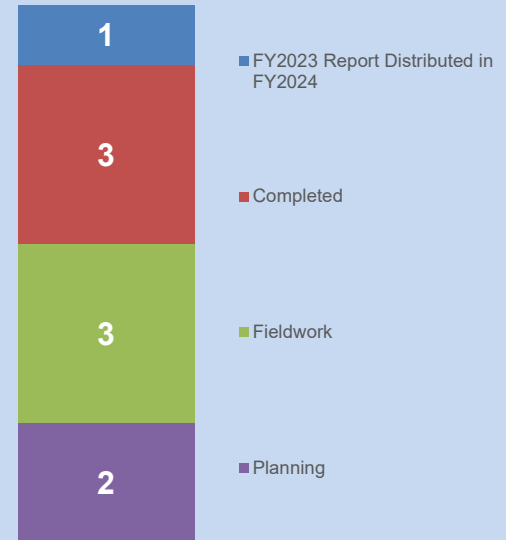
FY2023-2024 ANNUAL AUDIT PLAN STATUS

AS OF APRIL 12, 2024

Detailed Line Item Use of Audit Hours

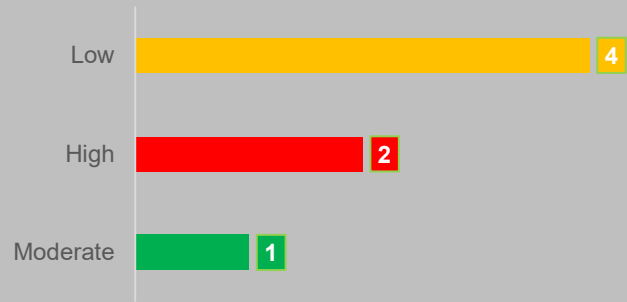


Audit Engagements Status



STATUS OF AUDIT RECOMMENDATIONS

Status of Audit Recommendations
4/12/2024



- Citywide Procurement Cards Audit
 - 2 – High
 - 1 – Moderate
- Procurement Audit
 - 1 – Low
- Community Development Audit
 - 3 – Low



SURPRISE
ARIZONA

**QUESTIONS OR
COMMENTS?**

Thank You