CITY OF SURPRISE
City Audit Committee Meeting
16000 N. Civic Center Plaza
Surprise, AZ 85374
Wednesday, September 25, 2019 @ 3:30 PM
COUNCIL CHAMBERS OVERFLOW ROOM

A. Call To Order

B. Roll Call

C. Pledge of Allegiance

D. Current Events and Reports

E. Staff Reports

F. City Audit Committee Agenda

CALL TO THE PUBLIC:

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

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

CONSENT AGENDA:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

1.	Citywide	Consideration and action pertaining to approval of the June 19, 2019 meeting minutes.	City Manager Office
2.	Citywide	Presentation to the Audit Committee by the City Attorney's Office pertaining to Arizona Open Meeting Law.	City Manager Office
3.	Citywide	Presentation and discussion of changes to the Surprise Municipal Code Chapter 2, Article VIII, Section 2-304 pertaining to Audit Committee membership.	City Manager Office
4.	Citywide	Consideration and action approving September 25, 2019 changes to the Audit Committee Bylaws.	City Manager Office
5.	Citywide	Discussion and action pertaining to the Bond Summary Report.	City Manager Office
6.	Citywide	Discussion and action pertaining to approval of the the Benefits and Enrollment Audit Report.	City Manager Office

7. Citywide Discussion and action pertaining to FY2019-2020 1st Quarter summary of audit recommendations. City Manager Office

G. Other Business and Future Agenda Items

H. Executive Session

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

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

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

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

I. Adjournment

SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED: September 19, 2019 at 2:05 PM

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

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: September 25, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:
Consideration and action pertaining to approval of the June 19, 2019 meeting minutes.

Motion:
I move to approve the minutes of the June 19, 2019 City Audit Committee meeting.

Background:
N/A

Objective Analysis:
N/A

Policy Compliant:
N/A

Financial Impact:
N/A

Budget Impact:
N/A

FTE Impact:
N/A

ATTACHMENTS:
1. Meeting Minutes-June 19, 2019

SURPRISE
ARIZONA

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

June 19, 2019

MEETING MINUTES – Draft (updated 6/25/19)

CALL TO ORDER

The meeting was called to order at 3:31 pm by Vice-Chair Bowers followed by the Pledge of Allegiance.

ROLL CALL

Vice-Chair Connie Bowers, Councilmember Chris Judd, Councilmember Ken Remley Andrea Davis, Finance Director John Holland (welcome to our new member) and Tammie Hollowell, IT Director

ABSENT

Chair Melissa Holdaway, excused absent

STAFF PRESENT:

Carol Holley, Internal Auditor-Sr., Gloria Bianco, Committee Secretary, Terry Lowe, Assistant City Manager.

Action item: Approval of March 13, 2019, Audit Committee meeting minutes – Councilmember Ken Remley motioned to approve the minutes. Second, by Councilmember Chris Judd. Six yes votes, motion carried.

Discussion and action pertaining to a 4th Quarter summary of Audit recommendations:

This report is a summary of outstanding audit recommendations. Currently, there are seven on-going recommendations. Two are related to the City Clerk's Public Records Request audit. Five are related to the Community Recreation & Services (CRS) Program Registration audit. The estimated completion of the recommendations is in October 2019. CRS is close to completing the recommendations related to the CRS Program Registration Audit. The department is working with the Finance Department to develop a revenue policy and to reconcile their Accounts Receivables.

CRS now have policies in place to review their collectible accounts promptly. Councilmember Remley asked the Internal Auditor for a status update on how many CRS accounts have been sent to collections since October 2018. The Internal Auditor will provide this information at a later date.

Councilmember Judd motion to approve and distribute the 4th Quarter summary of audit recommendation. Second, by Councilmember Remley. Six yes votes, motion carried.

Discussion and action pertaining to the Payroll Error Review Memo:

This review is part of our Continous Review Program. A staff member noticed an error on their check and we wanted to determine if this was a one-time error or perhaps a more comprehensive issue. We looked at 100% of payroll adjustments made for part-time employees for the period of July 1, 2018 to April 24, 2019 and could not find another instance of this error. The error occurred due to a manual process to modify staff members hours from part-time worked in a full-time position. Additional details of payroll processes will be shared at the next Audit Committee meeting as part of the payroll benefit audit. Currently, the payroll benefit audit is in the Management response stage.

Recommendations from our Audit team was to review pay rate changes during each bi-weekly payroll process, define procedures when there are payroll changes outside Munis workflow and if there is a significate change to an employees paycheck, a notification would be sent to the employee advising of the change.

Mrs. Davis motioned to approve and distribute the Payroll Error review memo. Second, by Mr. Holland. Six yes votes, motion carried.

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

This is another Continuous Review Program. IDEA audit software allowed us to look at 100% of the transactions. The objective was to identify possible accounts payable (A/P) invoice duplicate payments, any conflicts of interest, missed discounts, noncompliance with purchase order (PO) dollar threshold, and duplicate vendors.

Findings: Electronic medical documents with employee personal identifiable information, three duplicate payments, PO and/or contract number are not always updated in Munis to assist with monitoring the authorized spending levels, and POs are not always obtained as required by City procurement policy.

Internal Audit noted best practices were implemented by Finance to reduce errors and to enforce segregation of duties.

The next status report will include an update to these items. This report will be on-going and possibly automated report.

Councilmember Remley moved to approve and distribute the Accounts Payable Continuous Review Report. Second, by Mrs. Davis. Six yes votes, motioned carried.

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

The purpose of this report is to summarize Internal Audit FY2018-2019 activities, discuss issues or concerns, and to identify where staff sees Internal Audit in the future.

The FY2018-2019 Annual Audit Plan allocated 82% of available audit hours to direct hours. Internal Audit used 79% of available audit hours as direct hours. Reasons contributing to not meeting the 82% goal included the hiring of a new employee, additional training, and unscheduled meetings.

During FY2018-2019, 11 reports were generated, six completed with one pending.

Internal Audit's future primary challenge is to leverage additional technology.

Mrs. Hollowell moved to approve and distribute the FY2018-2019 Annual Audit Activity Report. Second, by Councilmember Judd. Six yes votes, motioned carried.

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

Ms. Holley discussed next fiscal year audit plan. More time will be spent on our Continuous Review Program, special requests, and requests from the Audit Committee. The big project for FY2019-2020 will be the Internal Control Assessment. This is a citywide project designed to identify potential high-risk activities that might impact City assets. The Internal Control Assessment project, tentatively, will overflow to the next fiscal year's audit plan.

More than 4,000 available audit hours will be spent on audits this next fiscal year.

Mr. Holland motioned to approve the FY2019-2020 Annual Audit Plan. Second, by Tammi Hollowell. Six yes votes, motioned carried.

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

Mrs. Davis advised the committee that the external audit is underway. Cost for the audit is approximately $100,000 the amount fluctuates depending on any additional audits the auditors are asked to perform.

Executive Session:

Councilmember Judd moved to enter into executive session for the presentation and discussion of the Information Technology documents deemed confidential by law. Second, by Andrea Davis. 6 yes votes, motion carried at 4:21 pm

Reconvened the regular meeting at 4:42 pm.

Action pertaining to approval of the Information Technology Internal audit report:

Mrs. Davis motioned to approve the confidential Information Technology audit report. Second, by Councilmember Remley. Six yes votes, motioned carried.

Open Discussion:

No further discussion

Date and Time of Next Meeting:

It was decided to have our next meeting on Wednesday, September 25, 2019, at 3:30 pm. Gloria will send meeting notices to everyone.

Adjournment:

Councilmember Remley motioned to adjourn the meeting. Second, by Mrs. Davis. Six yes, votes, motion carried.

The meeting adjourned at 4:50 p.m.

Submitted by

____
Carol Holley, Internal Auditor – Sr.

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

ATTEST BY: ____________________________________
Gloria Bianco, Committee Secretary

DATE: ____________________________________

Mission statement:

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

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: September 25, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:
Presentation to the Audit Committee by the City Attorney's Office pertaining to Arizona Open Meeting Law.

Motion:
None

Background:
The presentation will cover topics helpful to the efficient and proper manner of conducting public meetings.

Objective Analysis:
N/A

Policy Compliant:
N/A

Financial Impact:
N/A

Budget Impact:
N/A

FTE Impact:
N/A

ATTACHMENTS:
1. 19.01.15 Open Meeting Law

SURPRISE
ARIZONA

OPEN MEETING LAW TRAINING

LEGAL DEPARTMENT, JANUARY 15, 2019

OPEN MEETING LAW

. . . opening the window on how government works in Arizona

A.R.S §38-431.01(A)

Arizona law states:

All meetings of any public body must be public meetings and all persons so desiring shall be permitted to attend and listen to the deliberations and proceedings. All legal action of public bodies must occur during a public meeting.

PURPOSE OF THE OPEN MEETING LAW

To ensure that the public has an opportunity to observe what the government is doing, and how it is being done.

STATE POLICY A.R.S. §38.431.09

- Meetings of public bodies must be conducted openly.
- Notices and agendas provided for meetings with information <u>reasonably necessary to inform the public of matters to be discussed or decided.</u>
- Construe OML in favor of “open and public meetings.”
- Discuss or take action ONLY on items that are on the agenda.

WHAT IS A MEETING?

Meeting: the gathering, in person or through technological devices, of a quorum of members of a public body at which they discuss, propose or take legal action, including any deliberations by a quorum with respect to such action.

A.R.S. § 38-431(4).

“… in person or through technological devices”

WHETHER

- All together in one room, OR
- One or more of the people participating by phone, OR
- One or more participating by computer, video chat, or phone
- Over time rather than all at once.

…it is all considered a meeting

Another way to define meeting…

1. Phone calls.
2. Emails-be careful responding to emails. Using “Reply All” and Forwarding emails may lead to OML trouble.
3. Serial meeting-less than a quorum present. Later the same discussion is had with other members.
4. Social events-when in doubt, post as possible quorum.
5. Social media-be careful “liking” comments, emerging area of law.

Are social events meetings?

- A.G. recommends that the event be posted if a quorum will be present.
- Identify time, date, location, and purpose.
- State that no legal action will be taken – *and then don't talk about city business!*
- It does not matter what label is placed on a gathering; it may be called a "work" or "study" session, or the discussion may occur at a social function.
  Ariz. Att'y Gen. Op. I79-4 (¶7.5.1).

ALTERNATIVE COMMUNICATIONS

- Letters
- Blogs
- Media (e.g. newspaper, radio)
- Social Media (e.g. Facebook, Twitter)

(Cannot use alternative methods of communication to circumvent Open Meeting Laws.)

COMMUNICATION WITH STAFF

- Council/Board may communicate with staff.
- Staff may provide the Council/Board with reports or other information outside a public meeting.
- Staff may *not* be used to side step the open meeting law.

SPECIAL KIND OF MEETING:

EXECUTIVE SESSION

- City Clerk is responsible for noticing the public of all meetings, including executive sessions.
- Majority of Council/Board must vote to convene into executive session.
- Only members of the public body and those individuals whose presence is reasonably necessary for the public body to carry out its duty are permitted to attend the executive session.

SPECIAL KIND OF MEETING:

EXECUTIVE SESSION, cont.

- Legal Advice
- Litigation, Contract Negotiations, and Settlement Discussions
- Purchase, Sale or Lease of Real Property

SPECIAL KIND OF MEETING:

MORE INFREQUENT PURPOSES FOR EXECUTIVE SESSIONS

- Confidential records
- Salary negotiations with employee organizations
- Negotiation direction for International, Interstate or Tribal organizations

SPECIAL KIND OF MEETING

EXECUTIVE SESSION, cont.

- Discussion ONLY.
- Can give direction in some cases.
- Must keep minutes of e-session.
- Minutes are confidential except in limited circumstances.

PENALTIES FOR VIOLATING THE OPEN MEETING LAW

- Civil Penalty up to $500
- Removal from Office for Intentional Violations
- Plus court costs and attorney fees
- City cannot represent you or pay for a lawyer to represent you.

ARS § 38-431.07

Conflict of interest

Arizona statutory law requires public officers (or employee) who have a conflict of interest to do two things…

1) Disclose the interest
2) Refrain from **<u>any</u>** participation in the matter.

A.R.S. §§ 38-501 to 511.

WHAT IS A CONFLICT OF INTEREST?

- A PUBLIC OFFICER OR EMPLOYEE
- WHO HAS (OR HIS RELATIVE HAS)
- A SUBSTANTIAL INTEREST

SUBSTANTIAL INTEREST?

- A NON-SPECULATIVE
- PECUNIARY (financial)
- PROPRIETARY (business)
- EITHER DIRECT OR INDIRECT

RELATIVES

- Your spouse
- Your children
- Your grandchildren
- Your parents
- Your grandparents
- Your siblings by full or half-blood & their spouses
- Your spouse’s parent, brother, sister or child

WHAT ALL APPOINTED OFFICIALS NEED TO KNOW.

- Conflicts can happen-just don't try to influence the decision or vote. Always disclose the interest.
- When in doubt --- ASK!!
- What to do at the meeting when you have a conflict? – Refrain from participation.

GIFTS

Can you accept them? Can you give them?

GIFTS - Accepting

- Public officers are prohibited from using or attempting to use their position to secure any benefit or anything of value.
- A.R.S. § 38-504(c)

- Public officers are prohibited from agreeing to receive or receiving compensation other than as provided by law for services they render.
- A.R.S. § 38-505(A)

Exceptions

- *De minimis* gifts, i.e.:

  1) Unsolicited advertising or promotional material such as pens, scratch pads, calendars, etc… (basically trinkets).

  2) Other items of nominal value (e.g. box of candy or fruitcake) that are merely tokens of appreciation and not related to any particular transaction.

Ask yourself

- How would you feel if the Arizona Republic ran a story about you receiving the gift?
- Would a citizen question whether the gift is intended to buy influence?

- If you have any reservation or question about the propriety of a gift or gratuity, the best practice is always to:

DECLINE

SURPRISE
ARIZONA

QUESTIONS OR COMMENTS?

Thank You

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: September 25, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Presentation and discussion of changes to the Surprise Municipal Code Chapter 2, Article VIII, Section 2-304 pertaining to Audit Committee membership.

Motion:

None

Background:

On September 6, 2016, the Mayor and Council, by Ordinance #2016-25, formally established an Audit Committee of the City of Surprise, to provide oversight responsibilities regarding the integrity of the financial statements of the City, among other duties. To ensure that the Audit Committee is able to effectively perform this duty, it is essential that the Committee composition remain independent and free from conflict of interests. Therefore, there has been periodic review of the Committee's authority and bylaws.

On September 5, 2019, at the Regular City Council Meeting, City Council unanimously adopted Ordinance # 2019-23, which clarified appointment of members and altered the voting rights of the two city director members. It also altered the definition of quorum and majority.

Objective Analysis:

The amendment as adopted by City Council will result in clarification of appointment to the Committee and also support and ensures the independence of the Audit Committee. Section 2-304 will now be unambiguous as to how and who appoints both the two Council members and the two city employee members. The two city members will not have voting rights and a quorum and majority have been defined by the addition of section 2-304(e).

Policy Compliant:

N/A.

Financial Impact:

N/A.

Budget Impact:

N/A.

FTE Impact:

N/A.

ATTACHMENTS:

1. 19.21.08 Audit Committee Amendment Ord 2019-23 (2) (1)

ORDINANCE # 2019-23

AN ORDINANCE OF THE MAYOR AND COUNCIL OF THE CITY OF SURPRISE, ARIZONA, AMENDING CHAPTER 2, ARTICLE VIII, SECTION 2-304, BY REVISING STAFFING, VOTING RIGHTS, AND DEFINING QUORUM OF THE COMMITTEE; INCLUDING SEVERABLITY; ESTABLISHING AN EFFECTIVE DATE; AND REPEALING CONFLICTING ORDINANCES.

WHEREAS, on September 6, 2016, City Council established an Audit Committee by Ordinance # 2016-25; and

WHEREAS, City Council has reviewed Section 2-304, as codified by Ordinance # 2016-25, and identified amendments to further ensure independence of the Audit Committee.

NOW, THEREFORE, BE IT ORDAINED by the Mayor and Council of the City of Surprise, Arizona, as follows:

Section 1. Chapter 2, Article VIII, Section 2-304(a) is amended to read as follows:

(a) Membership. The audit committee will be compromised of seven members consisting of the following:

(1) Two city council members APPOINTED BY THE MAYOR;
(2) Three residents of the city; AND
(3) Two NON-VOTING city department executives APPOINTED BY THE CITY MANAGER.

~~For administrative purposes, the city manager will facilitate the staffing of the audit committee.~~

Section 2. Chapter 2, Article VIII, Section 2-304 is amended by adding subsection (e) which will read as follows:

(e) QUORUM AND VOTING. A QUORUM OF THE AUDIT COMMITTEE SHALL CONSIST OF THREE VOTING MEMBERS, ONE OF WHOM SHALL BE A CITY COUNCIL MEMBER. A MAJORITY SHALL MEAN MORE THAN HALF OF THE VOTING MEMBERS PRESENT AT A MEETING. THE TWO CITY DEPARTMENT EXECUTIVE MEMBERS SHALL BE NON-VOTING MEMBERS.

Section 3. If any section, subsection, sentence, clause, phrase or portion of this Ordinance or any part of these amendments to the municipal code adopted herein is for any reason held to be invalid or unconstitutional by decision of any court of competent jurisdiction, such decision will not be read to affect the validity of the remaining portions thereof.

Section 10. This ordinance will become effective at the time and manner prescribed by law.

Section 11. All ordinances, resolutions or codes in conflict with the provisions of this ordinance or code adopted by this ordinance are repealed.

PASSED AND ADOPTED this _____ day of _____________, 2019.

Skip Hall, Mayor

Attest:

Approved as to form:

Sherry Aguilar, City Clerk

Robert Wingo, City Attorney

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: September 25, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Consideration and action approving September 25, 2019 changes to the Audit Committee Bylaws.

Motion:

I move to approve the September 25, 2019 changes to the Audit Committee Bylaws.

Background:

The Audit Committee Bylaws were last reviewed, revised, and approved by the Audit Committee on March 22, 2017.

Objective Analysis:

Audit Committee Bylaws are periodically reviewed and revised, if necessary, to ensure the efficient and effective operation of the Audit Committee.

Policy Compliant:

Ordinance #2016-25 codified Chapter 2, Article VIII, Sec. 2-304(b) Bylaws To ensure independence and efficiency in the performance of its function the Audit Committee is hereby authorized to adopt bylaws which will at a minimum include and address voting rights meetings and member terms The bylaws may include any rules or policies which enable the Audit Committee to perform and carry out any of the duties enumerated herein.

Financial Impact:

N/A

Budget Impact:

N/A

FTE Impact:

N/A

ATTACHMENTS:

1. Audit Committee Bylaws with Edits-25Sept2019
2. Audit Committee Bylaws -Revised 25Sept19

SURPRISE

ARIZONA

Proposed Draft Changes

Audit Committee Bylaws

Created: December 2015
Revised: March 22, 2017
Revised: ~~July 10, 2019~~September 25, 2019

Table of Contents

I. Ordinance

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

II. Purpose

The purpose of the Audit Committee (AC) shall be to provide advice to City Council in respect to fulfilling its oversight responsibilities regarding the integrity of the financial statements of the City of Surprise, Arizona (City). The AC will further assist and advise the Internal Auditor (IA) 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. Consistent with this function, the AC endeavors to encourage continuous improvement of, and foster adherence to, City policies, procedures and practices at all levels.

III. Composition

The AC shall consist of seven (7) members ~~appointed by the Mayor~~: two (2) ~~elected~~ City council members appointed by the Mayor;~~,~~ three (3) citizens;~~,~~ and two non-voting City department executives appointed by the City Manager.

AC members should have an understanding of financial reporting, accounting, auditing, or related business field(s), be familiar with local government operations, and have sufficient time to effectively perform the duties listed herein. At least one (1) member shall be designated as the "financial expert."

The members of the AC will designate a Chairperson and Vice-Chairperson by majority vote. A city staff member is not eligible to serve as Chairperson or Vice-Chairperson. The Chairperson has the authority to sign correspondence and resolutions as the official representative of the AC. During the absence of the Chairperson, the Vice-Chairperson shall act as the presiding officer over all AC meetings and activities.

Members will be appointed for a period not exceeding two (2) years, after which they will be eligible for extension or re-appointment for one (1) additional term. Each term shall start on July 1^{st} of the applicable year. Any vacancy shall be filled ~~in a timely manner~~ promptly. Members shall be appointed to achieve staggered two (2) year terms.

IV. Voting

Each member of the AC (excluding city staff) shall have one (1) vote. AC members must be present at the time of the vote. The act of the majority of AC members present at the meeting, at which a quorum is present, is the act of the AC. A quorum shall consist of four ~~(4)~~ (3) voting AC members, one (1) of whom shall be a City Council member. A voting majority shallmean moret than half of the voting members present at a meeting.

~~AC members cannot vote on any matter in which they, directly or indirectly, have a material interest~~.

V. Conflict of Interest

~~AC members will annually provide written declarations to the Chairperson stating they do not have any conflicts of interest that would preclude them from being members of the AC~~. AC members shall refrain from participating in any manner, including but not limited to discussion, ~~cannot vote~~ on any matter in which they, or a relative, ~~directly or indirectly,~~ has~~ve~~ a substantial~~material~~ interest as defined by Arizona law.

VI. Responsibility

The AC's primary duties and responsibilities include:

- ❖ Reporting after each AC meeting to the City Council on ~~problem areas~~ completed audit reports ~~and recommendations~~, as deemed appropriate. Reports ~~deemed confidential should be addressed in Exective Session with City Council, as deemed appropriate.~~ exempt by law from public inspection, including information or testimony that is specifically required to be maintained as confidential by state or federal law, may be addressed in a duly noticed executive session with City Council.
- ❖ Reviewing and approving the internal Annual Audit Plan. In making its pre-approval determination, the AC shall consider whether providing any non-audit services is compatible with maintaining the IA's independence.
- ❖ Considering and reviewing with the IA:
  - ✓ Significant audit findings during the year and management's responses to them
  - ✓ Monitoring follow up on reported findings to assure corrective action is taken
  - ✓ Any difficulties encountered during the performance of an audit conducted, including any restrictions or limitations on audit scope or access to required information
  - ✓ Any changes required in the planned scope of the Annual Audit Plan
  - ✓ The internal Audit Charter
  - ✓ The Internal Audit Office's overall performance and its compliance with accepted standards for the professional practice of internal auditing

- Evaluating findings and recommendations resulting from the Internal Audit Office peer review
- Meeting at least once annually with the City's external auditor to discuss the City's Comprehensive Annual Financial Report and other applicable risk management and City financial concerns.
- The AC may, in its discretion, also review reports from City management on other finance, legal, and administrative issues to the extent that it deems appropriate or necessary.
- Periodically assess the AC's performance under the bylaws and reassess the adequacy of the bylaws~~, and report to the City Council the results of the evaluation and any recommendations for proposed changes to the bylaws~~
- Performing other functions as requested by City Council

VII. Compliance

The AC shall:

- Discuss significant risk exposures periodically with the independent external auditor, City management ~~and~~ or the IA, as necessary
- Review the steps and programs that City management and the IA have taken to identify, monitor, control and report such exposures
- Establish procedures whereby employees can confidentially and anonymously submit to the AC concerns or issues regarding the City's accounting, compliance, ethical, or auditing matters
- Periodically require ~~City management,~~ the IA and the independent external auditor to review, report and comment on significant City risks or exposures and actions needed to minimize such risks or exposures
- ~~Review the City code of ethics and recommend any changes or additions~~
- Consider any emerging issues that the AC should become involved with in the future

VIII. Other Responsibilities

The AC shall oversee the IA's receipt, retention and treatment of fraud, waste and abuse ~~hotline~~ online complaints regarding accounting, internal accounting controls or auditing matters. The IA shall keep a record of complaints and inform the AC periodically of complaints received and actions taken for resolution.

IX. Meetings

The AC shall meet as frequently as circumstances dictate, but no less than four times annually, unless there are no items for discussion. All AC members are expected to attend each meeting, in person or via tele or video-conference. The AC will invite members of

City management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors ~~and~~ in executive sessions when appropriate. The AC shall name a Chairperson, who shall ~~prepare and/or~~ approve an agenda in advance of each meeting. ~~A majority of the voting members of the AC shall constitute a quorum~~. The AC shall maintain minutes or other records of meetings and activities of the AC.

The AC shall, through its Chairperson, or designee, regularly report to the City Council following the meetings of the AC, or as needed, addressing such matters as:

- Quality of the City's financial statements
- Compliance with legal or regulatory requirements,
- Performance and independence of the external auditors
- Performance of the internal audit function or
- Other matters related to the AC's functions and responsibilities.

X. Access

The AC may request reports from the Chief Financial Officer or City department heads. The AC may retain ~~(and determine the funding for)~~ experts to advise or assist it, including outside counsel, accountants, financial analysts or others. ~~and the organization shall provide sufficient funding therefore.~~

XI. Limitation of Audit Committee's Role

While the AC has the responsibilities and powers set forth in the bylaws, it is not the duty of the AC to plan or conduct audits or to determine that the City's financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulation. These are the responsibilities of City management and the independent external auditor.

Members of the AC are entitled to rely on the expertise, knowledge, and professional judgment of City management, the IA, the independent external auditor(s), and any consultant or expert retained by the AC. The AC's responsibilities are not to be interpreted as a substitute for the professional obligations of others.

Nothing contained in the bylaws are intended to expand the applicable standards of liability under statutory or regulatory requirements for the City Council.

XII. Authority

The AC has the authority to conduct or authorized investigations into any matters within its scope of responsibility. It is empowered to:

- Advise City Council on the appointment, compensation, and oversee the work of any registered public accounting firm hired by the City
- Resolve any disagreements between City Management and the independent external auditor regarding financial reporting, and other non-auditing services
- Resolve any disagreements between City Management and the IA regarding audit scope, observations, and recommendations
- Obtain any information it requires from any City employee, volunteer, or other external parties, subject to legal confidentiality restrictions, necessary to complete AC responsibilities
- Request attendance of any employee or volunteer of the City and its enterprises at AC meetings
- Pre-approve all auditing and non-audit services
- Retain independent counsel or others to advise the AC or assist in the conduction of an investigation
- Request from City Council, sufficient funds to exercise the powers and duties set forth herein

These bylaws and the policies therein become effective immediately upon adoption by the Audit Committee.

____ ____________________
Audit Committee Chair Date

____ ____________________
Audit Committee Co-Chair Date

____ ____________________
Audit Committee Member Date

____ ____________________
Audit Committee Member Date

____ ____________________
Audit Committee Member Date

~~Audit Committee Member Date~~

~~Audit Committee Member~~ ~~Date~~

SURPRISE

ARIZONA

Audit Committee Bylaws

Created: December 2015

Revised: March 22, 2017

Revised: September 25, 2019

Table of Contents

I. Ordinance

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

II. Purpose

The purpose of the Audit Committee (AC) shall be to provide advice to City Council in respect to fulfilling its oversight responsibilities regarding the integrity of the financial statements of the City of Surprise, Arizona (City). The AC will further assist and advise the Internal Auditor (IA) 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. Consistent with this function, the AC endeavors to encourage continuous improvement of, and foster adherence to, City policies, procedures and practices at all levels.

III. Composition

The AC shall consist of seven (7) members: two (2) City council members appointed by the Mayor; three (3) citizens; and two non-voting City department executives appointed by the City Manager.

AC members should have an understanding of financial reporting, accounting, auditing, or related business field(s), be familiar with local government operations, and have sufficient time to effectively perform the duties listed herein. At least one (1) member shall be designated as the "financial expert."

The members of the AC will designate a Chairperson and Vice-Chairperson by majority vote. A city staff member is not eligible to serve as Chairperson or Vice-Chairperson. The Chairperson has the authority to sign correspondence and resolutions as the official representative of the AC. During the absence of the Chairperson, the Vice-Chairperson shall act as the presiding officer over all AC meetings and activities.

Members will be appointed for a period not exceeding two (2) years, after which they will be eligible for extension or re-appointment for one (1) additional term. Each term shall start on July 1st of the applicable year. Any vacancy shall be filled promptly. Members shall be appointed to achieve staggered two (2) year terms.

IV. Voting

Each member of the AC (excluding city staff) shall have one (1) vote. AC members must be present at the time of the vote. The act of the majority of AC members present at the meeting, at which a quorum is present, is the act of the AC. A quorum shall consist of three (3) voting AC members, one (1) of whom shall be a City Council member. A voting majority shall mean more than half of the voting members present at a meeting.

V. Conflict of Interest

AC members shall refrain from participating in any manner, including but not limited to discussion, on any matter in which they, or a relative, has a substantial interest as defined by Arizona law.

VI. Responsibility

The AC's primary duties and responsibilities include:

- ❖ Reporting after each AC meeting to the City Council on completed audit reports, as deemed appropriate. Reports exempt by law from public inspection, including information or testimony that is specifically required to be maintained as confidential by state or federal law, may be addressed in a duly noticed executive session with City Council.
- ❖ Reviewing and approving the internal Annual Audit Plan. In making its pre-approval determination, the AC shall consider whether providing any non-audit services is compatible with maintaining the IA's independence.
- ❖ Considering and reviewing with the IA:
  - ✓ Significant audit findings during the year and management's responses to them
  - ✓ Monitoring follow up on reported findings to assure corrective action is taken
  - ✓ Any difficulties encountered during the performance of an audit conducted, including any restrictions or limitations on audit scope or access to required information
  - ✓ Any changes required in the planned scope of the Annual Audit Plan
  - ✓ The internal Audit Charter
  - ✓ The Internal Audit Office's overall performance and its compliance with accepted standards for the professional practice of internal auditing
- ❖ Evaluating findings and recommendations resulting from the Internal Audit Office peer review
- ❖ Meeting at least once annually with the City's external auditor to discuss the City's Comprehensive Annual Financial Report and other applicable risk management and City financial concerns.

- The AC may, in its discretion, also review reports from City management on other finance, legal, and administrative issues to the extent that it deems appropriate or necessary.
- Periodically assess the AC's performance under the bylaws and reassess the adequacy of the bylaws
- Performing other functions as requested by City Council

VII. Compliance

The AC shall:

- Discuss significant risk exposures periodically with the independent external auditor, City management or the IA, as necessary
- Review the steps and programs that City management and the IA have taken to identify, monitor, control and report such exposures
- Establish procedures whereby employees can confidentially and anonymously submit to the AC concerns or issues regarding the City's accounting, compliance, ethical, or auditing matters
- Periodically require, the IA and the independent external auditor to review, report and comment on significant City risks or exposures and actions needed to minimize such risks or exposures
- Consider any emerging issues that the AC should become involved with in the future

VIII. Other Responsibilities

The AC shall oversee the IA's receipt, retention and treatment of fraud, waste and abuse online complaints regarding accounting, internal accounting controls or auditing matters. The IA shall keep a record of complaints and inform the AC periodically of complaints received and actions taken for resolution.

IX. Meetings

The AC shall meet as frequently as circumstances dictate, but no less than four times annually, unless there are no items for discussion. All AC members are expected to attend each meeting, in person or via tele or video-conference. The AC will invite members of City management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors in executive sessions when appropriate. The AC shall name a Chairperson, who shall approve an agenda in advance of each meeting.. The AC shall maintain minutes or other records of meetings and activities of the AC.

The AC shall, through its Chairperson, or designee, regularly report to the City Council following the meetings of the AC, or as needed, addressing such matters as:

- Quality of the City's financial statements
- Compliance with legal or regulatory requirements,
- Performance and independence of the external auditors
- Performance of the internal audit function or
- Other matters related to the AC's functions and responsibilities.

X. Access

The AC may request reports from the Chief Financial Officer or City department heads. The AC may retain experts to advise or assist it, including outside counsel, accountants, financial analysts or others.

XI. Limitation of Audit Committee's Role

While the AC has the responsibilities and powers set forth in the bylaw~~s~~, it is not the duty of the AC to plan or conduct audits or to determine that the City's financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulation. These are the responsibilities of City management and the independent external auditor.

Members of the AC are entitled to rely on the expertise, knowledge, and professional judgment of City management, the IA, the independent external auditor(s), and any consultant or expert retained by the AC. The AC's responsibilities are not to be interpreted as a substitute for the professional obligations of others.

Nothing contained in the bylaws are intended to expand the applicable standards of liability under statutory or regulatory requirements for the City Council.

XII. Authority

The AC has the authority to conduct or authorized investigations into any matters within its scope of responsibility. It is empowered to:

- Advise City Council on the appointment, compensation, and oversee the work of any registered public accounting firm hired by the City
- Resolve any disagreements between City Management and the independent external auditor regarding financial reporting, and other non-auditing services
- Resolve any disagreements between City Management and the IA regarding audit scope, observations, and recommendations

- ❖ Obtain any information it requires from any City employee, volunteer, or other external parties, subject to legal confidentiality restrictions, necessary to complete AC responsibilities
- ❖ Request attendance of any employee or volunteer of the City and its enterprises at AC meetings
- ❖ Pre-approve all auditing and non-audit services
- ❖ Retain independent counsel or others to advise the AC or assist in the conduction of an investigation
- ❖ Request from City Council, sufficient funds to exercise the powers and duties set forth herein

These bylaws and the policies therein become effective immediately upon adoption by the Audit Committee.

________________________________ Audit Committee Chair	________________ Date
________________________________ Audit Committee Co-Chair	________________ Date
________________________________ Audit Committee Member	________________ Date
________________________________ Audit Committee Member	________________ Date
________________________________ Audit Committee Member	________________ Date

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: September 25, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:
Discussion and action pertaining to the Bond Summary Report.

Motion:
I move to approve and distribute the Bond Summary report.

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

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

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

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

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

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

ATTACHMENTS:
1. Bond Summary Report - FINAL

SURPRISE
ARIZONA

Bond Summary
Pavement Preservation – Phase 1

June 26, 2019

Table of Contents and Scope

Pavement Preservation Bond Summary

Purpose and Scope

As part of the approved FY2019 Annual Audit Plan, Internal Audit (IA) developed continuous review procedures around high-risk areas including the monitoring of 2017 General Obligation (GO) Bond projects. The review objective was to determine if bond funds were spent appropriately for the purposes voted on by residents. The audit did not cover a review of debt compliance and financial reporting procedures.

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

- Inquiry with Public Works (PW) and Finance Department personnel
- Comparison of invoices to contract rates and purchase orders (PO's)
- Verification of City Council approval at various steps in bond financing

Image Source: https://www.surpriseaz.gov/3624/Decide-Surprise

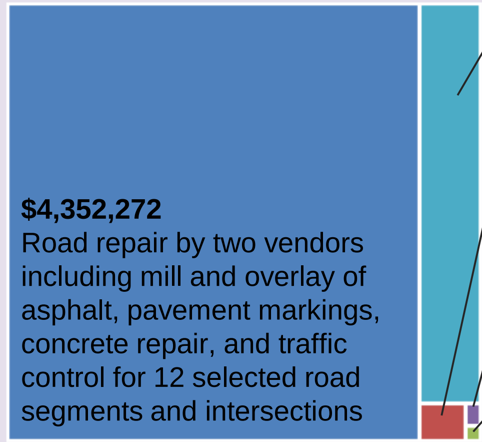
Executive Summary

How are voter-approved bond funds being spent? (As of June 26, 2019)

Election Question:

Shall the City issue bonds not to exceed $10,000,000 for pavement preservation projects, including the **costs to design, improve, construct, resurface, reconstruct and acquire necessary equipment and appurtenances** therefor to improve deteriorated pavement citywide?*

Pavement Preservation – Phase 1 (FY19 $5,000,000 Budget):



$592,489
Remaining FY19 budget for Peoria Ave completed in June

$41,588
Construction materials testing (e.g. asphalt content, concrete strength) for work performed

$8,189
Salary allocation and bond administration / banking fees

$5,462
Traffic control products

Conclusion

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

Before Rehab Example
(Cracking in Peoria Ave)

Transition – Rehab completed on left of photo (Dysart Road)

After Rehab Example
(Reems Road)

* In addition to each specific authorized purpose, bond proceeds may be used to pay for bond insurance or other credit support for the Bonds, all legal, accounting, financial, architectural, design, engineering, and construction management costs and all other costs incurred in connection with the issuance of the bonds and the purposes set forth in the question.

Bond Project Management Procedures

Processes In Place for Bond Project Transparency and Accountability

Efficient Project Execution

- ✓ Data-based selection of roadways for improvement
  - *Overall Condition Index (OCI) used to assess roadways and select poor condition arterial roads requiring rehabilitation (See right)*
- ✓ Competitive vendor selection
  - *Cooperative purchasing / pricing arrangements*
- ✓ Regular vendor site-visits
  - *Weekly construction site visits by City PW project manager (PM)*
- ✓ Established change management process
  - *Cost or scope changes handled through City's established PO change order process*

Communication and Transparency

- ✓ Continual updates to stakeholders
  - *Quarterly City Council updates and ongoing updates to Decide Surprise website with project status details*
- ✓ Frequent cross-departmental communication
  - *Bi-weekly meetings with PW, Engineering, Procurement, and Finance*

Fiscal Responsibility

- ✓ Allocation of bond funds and interest
  - *Monthly allocation of interest and drawdown of investment funds to cover cash outflows*
- ✓ Multi-layered approval of outgoing payments
  - *Invoice review and approval by PW and Finance through City's established Accounts Payable (AP) process*
- ✓ Systematic project tracking and monitoring
  - *Munis funds for each bond question and individual project codes*
- ✓ Documented debt covenant compliance procedures
  - *Annual checklist of requirements for each bond and continuing disclosure policies to use throughout the bond term*

City OCI Rating Scale

(Used to assess necessary roadway improvements)

Roadways improved with bond funds were arterial roads rated from poor to good (between 69 and 80 OCI) during initial 2015 OCI assessment and had degraded to poor condition (between 55 and 67 OCI) at the time of the bond.

SURPRISE OCI RATING SCALE	PAVEMENT TREATMENT TYPE	TREATMENT APPLICATION
EXCELLENT (91-100)	PREVENTATIVE	SWEEPING, TRAFFIC FLOW, WARRANTY, MORATORIUM, CRACK SEALING, FOG SEALS
GOOD (80-90)	MAINTENANCE	FOG SEALS, POLYMER SEALS, SLURRY SEALS, CHIP SEALS, PAVEMENT PATCHING, CRACK SEALING
FAIR (70-79)		
POOR (50-69)	REHABILITATION	MICRO SURFACING, MILL & OVERLAY, CAPE SEAL, HOT IN PLACE RECYCLING
SERIOUS (31-49)	RECONSTRUCTION	RE-DESIGNED/RE-ENGINEERED, NEW CONSTRUCTION
FAILED (0-30)		

* Source: Public Works OCI Rating Scale

Timeline

Pavement Preservation – Phase 1: Bond Project Timeline

2017

- City Council approves special election for three bond questions *(June ‘17)*
- Surprise voters approve all three bond questions totaling ~$60M *(November ‘17)*

2018

- Finance prepares to sell bonds and PW uses OCI to select proposed roads *(Jan - March ‘18)*
- City Council approves scope and budget amendment for FY19 projects *(February ‘18)*
- PW creates PO’s and selects vendors through cooperative purchasing *(March ‘18)*
- City Council approves first of two bond sales and bonds are issued *(April ‘18)*
- PW PM does weekly site visits while vendor completes work *(May ‘18 - June ‘19)*
- Finance monitors project cash flow and allocates interest monthly *(May ‘18 - June ‘19)*

2019

- PW and Finance review and pay monthly invoices for completed work *(May ‘18 - June ‘19)*
- Phase 1 roads completed and paid for and FY19 PO’s closed *(July – August ‘19)*

DECIDE SURPRISE

GENERAL OBLIGATION *BOND 2017*

Appendix A – Standards and Acknowledgements

Non-Audit Services

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

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

Data Reliability

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

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

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

Acknowledgements

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

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

- Public Works (Engineering)
- Finance

Auditor: Alison Matthees, MPA, CIA

Surprise Internal Audit

Vision

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

Mission

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

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

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: September 25, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Discussion and action pertaining to approval of the the Benefits and Enrollment Audit Report.

Motion:

I move to approve and distribute the Benefits and Enrollment Audit Report.

Background:

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

Objective Analysis:

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

Policy Compliant:

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

Financial Impact:

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

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. Audit Report - Benefits and Enrollment FINAL

SURPRISE
ARIZONA

Benefits and Enrollment Internal Audit Report

May 7, 2019

Table of Contents

Image Source: City of Surprise Employee Intranet – Benefits Page

Executive Summary and Observations

Executive Summary

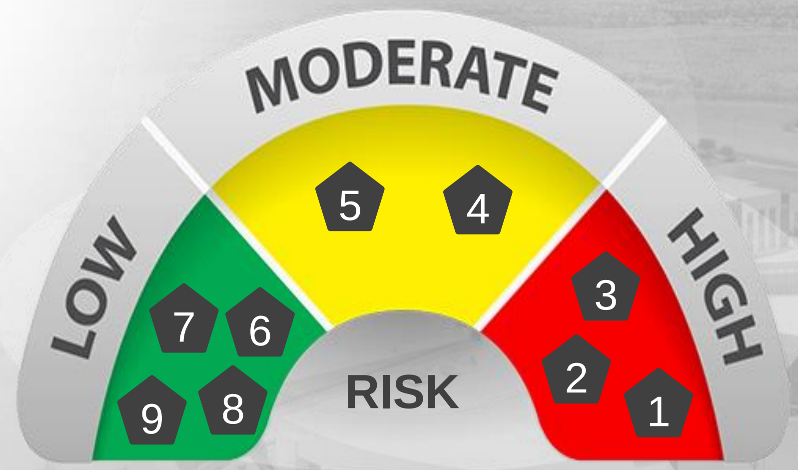
The Human Resources (HR) Department manages the City of Surprise's (City) self-insured benefits plan funded from the Employee Healthcare Fund which is overseen by the Health Benefits Trust Fund Board. The Benefits Division of HR processes employee and dependent benefits eligibility verification and enrollment, updates and maintains benefits coverage records, and manages contract compliance and payments for the City's Third Party Administrators (TPA's) who administer the health, medical, and vision insurance plans.

In Fiscal Year (FY) 2019, Internal Audit (IA) assessed the design and operating effectiveness of internal controls around benefits and enrollment focusing on effectiveness and efficiency of benefits processes, safeguarding of financial assets, adequacy of information technology, and compliance with regulations. The procedures performed indicate that defined controls exist around employee and dependent enrollment, vendor procurement and payment, continuing coverage, and contract and regulatory compliance to materially ensure the accuracy and completeness of benefits enrollment. Observations were identified related to formalizing segregation of duties in roles and system access, implementing periodic monitoring, and enhancing documentation of policies and procedures.

Observations

1. HR management should establish reports and document a review process for changes made to employee payroll deductions. *(Page 5)*
2. Procedures to monitor regulatory compliance should be defined and performed timely. *(Page 6)*
3. The review process for monitoring TPA records accuracy with 834 Exception Reports should be formalized and documented. *(Page 7)*
4. HR management should develop and document centralized monitoring for appropriate document retention and timely resolution of open items. *(Page 8)*
5. Segregation of duties for HR functions should be defined and aligned with Munis system access. *(Page 9)*
6. HR management should consider the feasibility of periodically re-verifying dependent eligibility. *(Page 10)*
7. Access to benefits applications should be monitored periodically. *(Page 11)*
8. HR management should document a formal procedure for monitoring TPA contracted performance guarantees. *(Page 12)*
9. HR management should determine the feasibility of increased efficiencies utilizing Munis workflow capabilities. *(Page 13)*

Observation Risk Rating



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

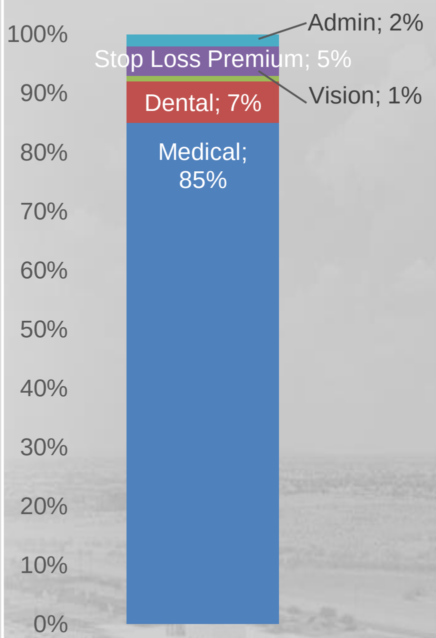
Background, Objectives, and Scope

Background

As of January 2019, the City's health care benefits (medical, dental, and vision insurance) covered approximately 852 active City employees and 1,732 dependents. Estimated insurance claims for FY2019 totaled approximately $11.5 million and the City continues to recognize lower than industry average medical costs. The City utilizes TPA's for medical, dental, and vision insurance who process claims on the City's behalf and bill the City monthly for claims and administration fees. All three TPA's went through a Request for Proposal (RFP) process in FY2018 (medical) and FY2019 (dental, and vision) resulting in a new dental TPA and continuation of the existing medical and vision contracts. The City complies with the Patient Protection and Affordable Care Act (ACA), Health Insurance Portability and Accountability Act (HIPAA), Health Care Continuation Coverage (COBRA), and Internal Revenue Service (IRS) reporting regulations which govern various aspects of employer-offered insurance plans.

Employees may enroll in benefits as new full-time employee within 30 days of hire, during annual open enrollment in May, or as a result of a qualifying life event (QLE) like marriage, childbirth, or loss of other coverage. Once benefits elections are made, HR personnel verify dependent eligibility, when applicable, scan and archive enrollment documentation within the LaserFiche document repository, and enter the elections into Munis where they are reviewed and approved using automated workflows. Elections or benefits changes are communicated to the TPA's through automated weekly reports and to City Payroll personnel through the Munis workflow for processing biweekly payroll deductions. Eligible terminated employees or dependents who lose coverage due to age or change in family situation are offered the option of continuing coverage which the City manages utilizing COBRA Solutions software.

FY2019 Healthcare Fund Budget: $12.7M



Objectives

As part of the approved FY2019 Annual Audit Plan, in January, IA commenced with the Benefits and Enrollment audit within HR.

The objective of the audit was to determine whether controls are in place to determine enrollment eligibility for health, dental, and vision benefits as per City's definition of eligibility. The audit also assessed City compliance with healthcare provider agreements.

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

Scope / Methodology

The scope of the audit was for the period of July 1, 2017 to March 31, 2019 (the current FY and prior full FY). Procedures included:

- Interviews and discussions with HR, Information Technology (IT) Department, and Finance personnel
- Review of HR and benefit-related policies and procedures
- Analysis and sample-based testing of Munis and TPA data and supporting documentation around benefits transactions
- User access review for systems storing personally identifiable information (PII) and personal health information (PHI)

Detailed Observations – High Risk

Observation	Recommendation	Management Response
1 – HR management should establish reports and document a review process for changes made to employee payroll deductions. Many changes to employee benefits and deductions are made through the Munis workflow process, requiring review and approval of multiple individuals before becoming effective but there are some changes made directly in the live Munis environment. There are several individuals within HR who have access to make changes to payroll deductions, rates, and employee information in Munis without going through the workflow approval process. Biweekly payroll is currently processed through Munis by two Payroll Specialists and overseen by a Payroll Supervisor who are all able to modify payroll inputs and generate payroll. The Fraud Triangle framework identifies opportunity, or the ability to execute a plan without being caught as a key risk factor for potential fraud. Organizations can eliminate the opportunity for fraud by implementing monitoring controls designed to catch any errors or unauthorized transactions. Through inquiry performed, it was noted that there is currently no systematic reporting and review to capture payroll changes made throughout the period to verify accuracy and appropriateness. Additionally, there is currently not a review of payroll changes by an individual without the access to also make changes. ***Risk:*** • Unauthorized changes may be made to payroll register • Deductions may not agree to the benefits enrolled in	HR management should: A. Work with IT and Munis vendor to develop a usable payroll change report which details any changes made since the prior pay period. The report should include any manual changes made including, but not limited to: updated deduction amounts, employee name / bank account information, manual adjustments to hours, etc. B. Develop and document a review process for each pay period in which an HR management designee reviews manual changes and period-over-period deviations for accuracy and reasonableness. Work with IT to modify user access permissions to ensure the reviewer is systematically unable to make any changes without secondary Munis workflow approval.	A. ***Concur.*** As previously identified in the “Payroll Error – Human Resources Department” audit from May 7, 2019, we have identified a process to check employee pay rate changes from one payroll to the next. Unfortunately, Munis does not have any existing reports that will meet this need. Therefore, we will need to create a custom report within the system limitations of Munis. We will continue to collaborate with IT and Munis to create a payroll changes report to include pay rates and deductions. Estimated date of completion is September 30, 2019. B. ***Concur.*** The verification of manual changes has been addressed in the HR Data Changes Audit Process SOP completed June 14, 2019. This SOP provides guidance relative to access to make manual/live data changes, authorization for these changes, required supporting documentation, independent review of changes, and communication of changes. The SOP will be updated to include the process for running and reviewing the payroll changes report as mentioned in item 2A. User access permissions will be addressed in the HR Benefit Administration SOP. Estimated date of completion is September 30, 2019.

Detailed Observations – High Risk

Observation	Recommendation	Management Response
2 – Procedures to monitor regulatory compliance should be defined and performed timely. Regulations the City must comply with include ACA and COBRA. ACA requires the City to offer insurance to any employee who averages 30 hours per week. To comply, HR uses canned Munis reports detailing part-time employee hours on a rolling 12-month basis using their hire date and notifies any eligible employees identified. COBRA regulations require that group health plans offer ‘‘qualified beneficiaries’’ an opportunity for ‘‘continuation coverage’’ following the loss of coverage. To comply with COBRA, HR processes benefits termination packets for terminated employees enrolled in benefits which provide options for continuing coverage. HR utilizes COBRA Solutions software to track employee continuing benefits and applicable payments. Through testing performed, the following were noted: - Three monthly 29+ Hour Reports generated in the last 18 months were run and analyzed after the coverage eligibility date for any identified employees. The report creation timeline does not allow enough time to process elections before the eligibility date. - For one of 12 terminations tested, a COBRA letter of eligibility was not distributed to the employee. There is no periodic review of all terminations to verify all COBRA termination notices were completed. ***Risk:*** • The City could be out of compliance with federal COBRA and ACA regulations • Eligible employees might not have timely coverage	HR Management should: A. Update the procedures and timeline for 29+ Hour Reports to run and analyze the report the first week after the initial measurement period month ends to allow time for appropriate processing and follow-up during the 60-day administrative period. B. Develop and document a process for periodically monitoring terminated employees for completeness and accuracy of COBRA compliance. A reconciliation between all terminated employees and those who COBRA notifications have been prepared for should be performed at least monthly by someone who does not prepare the COBRA notifications.	A. ***Concur.*** Our 30 Hour Employee SOP has already been updated to allow appropriate processing time during the administrative period in accordance with the ACA. The SOP was updated and approved effective June 27, 2019. In the instances when the 29+ hour reports were run after the coverage eligibility date, it is important to note that no employee coverage was impacted. For the one eligible employee identified, coverage was offered retroactively. ***B. Concur.*** Completeness and accuracy of COBRA compliance is extremely important. To improve compliance, in December 2017 we centralized COBRA notifications to one staff member. Since that time we have been 100% compliant with COBRA notification requirements. In calendar year 2018, we processed 68 terminations for full-time employees who required COBRA notices. While monitoring processes exist, this will be formally documented in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.

Detailed Observations – High Risk

Observation	Recommendation	Management Response
3 – The review process for monitoring TPA records accuracy with 834 Exception Reports should be formalized and documented. According to each TPA contract (medical, dental, and vision), it is the City's responsibility to provide accurate eligibility information to each TPA promptly. 834 Reports are utilized weekly to verify Munis benefits enrollment records agree with each of the TPA's enrollment registers. 834 and Exception Reports are a relatively new process (within last 6-8 months) resulting in more timely correction of any TPA data errors previously captured only in a monthly reconciliation. The 834 Report is generated by the HR Specialist and automatically exported to the TPA using a process set-up by IT. Exception Reports, detailing any discrepancies between the TPA's records and Munis records, are sent by the TPA within a few days of receipt of the report. The HR Specialist reviews any exceptions, notes the required resolution, and communicates back to the TPA for correction. Through testing and inquiry performed, it was noted that documented policies exist around the creation and export of 834 Reports which are consistently run and retained, but not the Exception Report follow-up, review, and escalation procedures. The HR Department has not consistently been saving a record of the exception reports and, when applicable, necessary follow-up. ***Risk:*** • Lack of documentation may hinder HR's ability to identify root cause of any future issues identified	HR Management should: A. Update the procedures around reviewing weekly 834 Exception Reports for TPA's to include: - Follow-up and / or escalation procedures if issues or discrepancies are identified - Timeliness thresholds for reviewing Exception Reports - Procedures for evidencing review of each Exception Report - Documentation retention for TPA provided Exception Reports	A. ***Concur.*** While we currently have a prudent process in place, the only part of the process that is documented in an SOP is the 834 report generation in Munis. The additional elements mentioned, including our existing processes for timely reconciliation, will be formally documented in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.

Detailed Observations – Moderate Risk

Observation	Recommendation	Management Response
4 – HR management should develop and document centralized monitoring for appropriate document retention and timely resolution of open items. The City is responsible for verifying employee and dependent eligibility for benefits coverage by obtaining specific documentation as outlined in state statute and federal regulation. Enrollment involves completion of an Enrollment Form and signatures on required HIPPA disclosures and affidavits. The City's current Public Benefit Dependent Affidavit, used to collect information to enroll dependents in City benefits, states: "The City will not retain the identification once the form is approved." HR personnel monitor outstanding items for their assigned employees or QLE's and retain eligibility verification in LaserFiche once complete. Based on testing performed, the following was noted: - Four instances of incomplete / non-response to open item follow-up. - Eight findings around document retention including: dependent documentation retained not following policy, missing HR signature on a Dependent Affidavit, missing social security number documents, no signed HIPAA disclosure, and employee documents in incorrect employee's folder. These findings were the result of inconsistent application of policy and decentralized tracking procedures among HR staff. HR was in the process of updating procedures during audit completion. ***Risk:*** • Dependents covered by City insurance may not have been appropriately verified for eligibility	HR management should: A. Develop and document procedures for maintaining appropriate documentation and monitoring open items to ensure timely resolution. Considerations include: - A centralized location for tracking all outstanding documentation - Quarterly supervisor review of open items - Defined escalation procedures for aging (>90 days) follow-up items - Procedures for tracking dependent identifying information obtained outside of new hire orientation - Reviewer responsibilities when approving benefits changes in Munis B. At least biannually, review benefits-related documentation for a sample of new employees in the timeframe since the prior review to verify documentation retention according to HR policy.	A. ***Partially concur.*** In FY19, we processed 202 benefit changes, new hire benefit enrollments, and qualifying life event changes (QLEs) in addition to the annual benefits open enrollment. In early 2019, we proactively identified that we needed additional controls related to follow-up and supporting documentation – specifically for the Public Benefit Dependent Affidavit form. Incorporating advice and guidance from the City Attorney's Office, we implemented a process to allow employees 90 days from benefit effective date to provide supporting documentation. While this process currently exists, it will be formally documented in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019. The only recommendation that we do not concur with is the centralized location for tracking outstanding documentation. This is a challenge because there are multiple staff members who are responsible for tracking and entering benefit changes, and each staff member has established a process for managing their work. Once the SOP is created and provides additional supervisor review and escalation procedures for aging items, the fact that these items are being tracked by various staff members is not a concern. B. ***Concur.*** Appropriate document retention is critical for benefits. Benefits supporting documentation newly scanned into Laserfiche is reviewed by staff (independent of the individual who scanned the documents) prior to the approval of the benefit entry in Munis. Information is also periodically reviewed when employees have a QLE or an open enrollment change. While the processes currently exist, they will be formally documented in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.

Detailed Observations – Moderate Risk

Observation	Recommendation	Management Response
5 – Segregation of duties for HR functions should be defined and aligned with Munis system access. Munis is updated by HR on an ongoing basis with new hire elections, open enrollment, and QLE's. Access is generally restricted to employees with a need to modify or report on benefits in HR, IT, and Finance. The City's Information Security Policies outline controls to ensure only authorized persons are using the system and that each user's access privileges must be: authorized according to business needs, restricted to least privileges necessary to perform job, and assigned based on job classification and function. Through testing and inquiry performed, it was noted that for 16 employees with access to benefits and HR modules of Munis, user access to update and delete information might be above the minimum requirements for their job responsibilities resulting in segregation of duties issues. Additionally, a periodic comprehensive user access review of employees with access to HR modules is not performed. Seven individuals with access to benefits and HR related modules of Munis are terminated employees or inactive contractors who no longer need access and should be removed in cooperation with IT and Finance. ***Risk:*** • Inappropriate or inaccurate changes may be made to employee benefits in Munis without authorization • Personnel outside the City might have access to information beyond the scope of their work	HR management should: A. Document HR policies or a segregation of duties matrix defining duties for HR functions and jobs. B. At least bi-annually, work with IT to perform a review of all users, assigned roles, and permissions allowed by those roles to identify and remove any conflicting access roles, terminated or transferred employees, or unnecessary access. As Munis allows, HR Management should ensure that access to the system aligns with departmental segregation of duties policies and best practices for HR and payroll functions. Finance management should: C. Work with IT to develop a process to ensure outside personnel who require access to the system have that access removed timely upon completion of their project.	A. ***Concur.*** Segregation of duties is fundamental to the data entry and workflow review and approval processes in Munis. While processes currently exist, they will be formally documented in the upcoming HR Segregation of Duties SOP that we anticipate to be complete by October 31, 2019. B. ***Concur.*** We concur that staff access should be set at the lowest level required to perform their required tasks. Further, we recognize the need to collaborate with IT to periodically review the access levels of Munis users. This will be addressed in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019. C. ***Concur.*** On July 2, 2019, we worked with the IT Team to disable access for our former audit firm and will work with the IT Team on an annual basis to enable/disable our current external auditors access to Munis at the beginning and conclusion of the audit process.

Detailed Observations – Low Risk

Observation	Recommendation	Management Response
6 – HR management should consider the feasibility of periodically re-verifying dependent eligibility. HR has controls in place which require employees to certify the eligibility of their covered dependents when adding any new dependents to City insurance by signing a Dependent Affidavit and providing a form of state-mandated identification. Dependent identification is required when added by a new hire, through open enrollment, or as a result of a QLE. Annually, if an employee makes no changes to their covered dependents, the employee is not required to submit any supporting documentation for that dependent’s continued eligibility. Monthly, HR generates the Dependent Overage Report to identify dependents aging out of ACA coverage at age 26. Though not required by law, many organizations encourage periodic (every 3-5 years) re-verification of dependent eligibility. For example, the State of California mandates re-verifying covered family members for state health benefits. Re-verification is beneficial to make sure dependents whose relationships can change over time are still eligible. Through inquiry performed, it was noted that the City does not have controls in place to periodically re-verify dependent eligibility. The city has previously considered if a dependent audit would be valuable, most recently in 2016, and determined it was not necessary at that time. ***Risk:*** • The City may be paying for ineligible dependents who are not identified and removed timely	HR Management should: A. Define and document a process for periodically (every 3-5 years) reassessing the feasibility, benefits, and costs of performing periodic employee dependent re-verification to identify any dependents with a changed relationship status to the employee which may make them ineligible for City benefits coverage. Evidence (e.g. cost vs. benefit analysis) to support the feasibility determination should be maintained.	A. ***Concur.*** As the observation indicates, we verify appropriate dependent eligibility upon initial eligibility of the employee to enroll in the program(s) and elect coverage for their dependent(s) or when a new dependent is added. We also conduct periodic reviews of dependent eligibility with our age 26 process as mentioned, whenever an employee has a QLE, or when changes are made during open enrollment. For example, this open enrollment 110 employees were identified on an audit change report and we reviewed dependent eligibility for each employee for all eligible plans. Further, the Health Benefits Trust Board has previously discussed the appropriateness of a dependent eligibility verification audit. It was determined by the Board and benefits consultant at that time that the cost outweighed the benefit due to the low risk because of our existing controls as described above. We will collaborate with our benefits consultant to make a feasibility determination regarding re-verifying dependent eligibility by August 31, 2019.

Detailed Observations – Low Risk

Observation	Recommendation	Management Response
7 – Access to benefits applications should be monitored periodically. HR uses a number of systems in addition to Munis to administer benefits. The HR shared drive is utilized to store monitoring and 834 Reports. LaserFiche is the City's document repository where HR scans and saves benefits-related documentation (enrollment forms, dependent affidavits, etc.). COBRA Solutions is a desktop application used to monitor employees and dependents enrolled in continuing coverage. The City of Surprise Information Security Policies and Procedures section 4.5.1 – User Authentication states: "Host computer and network system access controls are required to ensure that only authorized persons are using the system resources and information necessary to perform their job duties." Through testing performed, it was noted that for two of the three applications tested which store PHI and PII related to benefits (COBRA Solutions and LaserFiche), periodic documented user access reviews are not performed by the HR Department. These findings resulted from the fact that a listing of users with COBRA Solutions installed on their desktop is not maintained by HR or IT and the version of LaserFiche run by the City does not allow for the generation of systematic user access reports. ***Risk:*** • Potential for internal data breaches with inappropriate users gaining access to PII or PHI	HR management should work with IT to: A. Perform an audit of HR users with access to COBRA Solutions to develop a comprehensive list of users with access including the name of the user, the user's 6-digit computer ID, and reason for needing access to COBRA Solutions. At least annually, the HR Department should perform a user access review of this listing to validate the appropriateness of access and remove any users no longer needing the application. B. At least annually, perform a user access review of all user with benefits / personnel folder access within LaserFiche to identify and remove any terminated or transferred employees or unnecessary access.	A. ***Concur.*** This will be addressed in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019. We will create a list of users with COBRA Solutions access by August 31, 2019. In addition, we will audit and modify access as appropriate in the same timeframe. B. ***Concur.*** We have recently updated our users in Laserfiche to ensure only active HR users have access to employee benefits and personnel files. A formal process will be addressed in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.

Detailed Observations – Low Risk

Observation	Recommendation	Management Response
8 – HR management should document a formal procedure for monitoring TPA contracted performance guarantees. Currently the contracts for the medical, dental, and vision insurance TPA's each include a variety of performance guarantees around areas like customer service, provider network maintenance, and communication with the City. The contracts also outline the City's ability to perform various audits or request reports on the performance guarantee status. TPA's may send documentation of performance guarantees, but they are both sent and reviewed on an ad hoc basis. The city has delegated the monitoring of performance guarantees to the City's benefits consultant. The City's procurement code requires the monitoring of contractor performance including inspecting deliverables promptly and documenting any efforts to rectify issues or failure to adhere to contract requirements. Through inquiry performed, it was noted that HR does not currently verify the completeness or scope of the procedures performed by the benefits consultant. There is currently no documented policy nor assigned personnel to monitor the TPA performance guarantees on a periodic basis. ***Risk:*** • Medical, dental, and vision insurance TPA's may not be in compliance with contract provisions • The City might not collect financial penalties owed due to contract non-compliance	HR management should: A. Work with the City's benefits consultant to establish and document formal procedures for monitoring the performance guarantees of TPA contracts. Though the monitoring is done by the benefits consultant, the City's procedures should include frequency of review of work performed, communication required to be provided by benefits consultant, assignment of review responsibilities, and follow-up procedures.	A. ***Concur.*** Per the City's benefits consultant contract, they are responsible for assisting us with monitoring performance guarantees for all of our vendors. This is addressed as needed or at least annually during contract renewals. As an example, we recently received funds as a result of missed performance guarantees from one of our benefit vendors. A formal process outlining the City's expectation of the benefits consultant will be documented in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.

Detailed Observations – Low Risk

Observation	Recommendation	Management Response
9 – HR management should determine the feasibility of increased efficiencies utilizing Munis workflow capabilities. Monthly, HR is required by each TPA contract to submit two timely payments – one for claims paid in the preceding period and one for the administrative fees for the upcoming period. These invoices are prepared by the Senior (Sr.) HR Analyst – Benefits, approved by HR management according to defined authority limits, and paid through standard City accounts payable (AP) processes. When processing multiple monthly invoices for medical, dental, and vision insurance providers, the Sr. HR Analyst – Benefits generates or receives the invoice electronically, prints a hard copy of the invoice to have the Sr. HR Analyst – Benefits and HR Manager sign, then scans the hard copy for entry into Munis. The Munis approval workflows for benefits-related invoice approval currently begin with the management-level approver within the department. This requires the Sr. HR Analyst – Benefits, who is the initial invoice approver, to print and manually sign a hard copy of the invoice. Through inquiry performed, it was noted that inefficiencies exist for preparing and processing monthly invoices before being approved through Munis workflows. ***Risk:*** • Unnecessary time and resources spent on a task that could be automated using the current system	HR management should: A. Work with appropriate Finance and IT Department personnel to determine the feasibility of automating the complete invoice approval process by customizing workflows based on the invoice coding. If possible, develop comprehensive Munis workflows for invoice approval which include all necessary approvers, eliminating the need for manual approvals outside the system.	A. ***Concur.*** With the implementation of Munis, AP records and reporting are now more accessible than ever before. Due to the high dollar amount of many of these invoices, appropriate staff controls and review levels are required. HR management will determine if an HR Manager's signature on a hard copy is still necessary given the workflow processes in Munis. We anticipate making any process changes (if needed) by October 31, 2019.

Appendix A – Data Reliability and Risk Rating

Data Reliability

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

Additionally, as part of testing procedures for this Benefits and Enrollment audit, IA performed testing on samples of employees, dependent and enrollment data, and supporting documentation and identified no errors or limitations material in context of the work performed.

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

Audit Observation Risk Rating

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

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

Appendix B – Standards and Acknowledgements

Audit Standards

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

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

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

Acknowledgements

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

We received input and assistance from the following:

- Human Resources (Benefits Administration and Payroll)
- Information Technology
- Finance

Auditor: Alison Matthees, MPA, CIA

Surprise Internal Audit

Vision

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

Mission

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

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

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: September 25, 2019
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:
Discussion and action pertaining to FY2019-2020 1st Quarter summary of audit recommendations.

Motion:
I move to approve and distribute the 1st Quarter summary of audit recommendations.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2019- 2020 Annual Audit Plan approved by the Audit Committee at the June 19, 2019 meeting.

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

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

Financial Impact:
This item relates to work performed as part of the FY2019-2020 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. FY2020 1ST Qtr Audit Rec Status Rpt
2. 25Sept2019- Audit Cmt PowerPt Presentation-V2

Audit Recommendation Status Report

August 21, 2019

Carol Holley, Sr. Internal Auditor

Alison Matthees, Internal Auditor

Summary

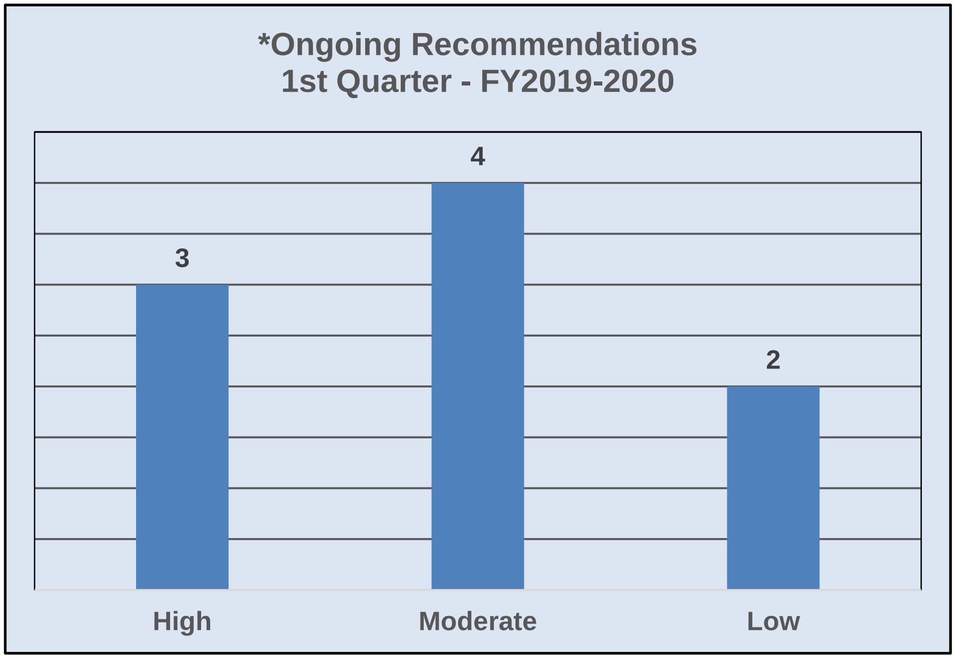
Each quarter, Internal Audit (IA) reports to the Audit Committee on actions taken by staff to address audit recommendations. This report summarizes actions taken by staff for the period of May 23, 2019 through August 19, 2019.

Exhibits A and B summarizes actions taken on 29 audit recommendations made in FY2017-2018 and FY2018-2019. Seventeen recommendations were completed to address risk associated with Accounts Payable Vendor Master File elimination of duplicate vendors, processing vendor refunds/credits, and using vendor discounts. Staff took actions to strengthen controls over IT general controls and Human Resources procedures for pay rate changes.

A common trend identified in the audit recommendations included the need to:

- Reconcile and review transactions and account balances to ensure accuracy and completeness of data
- Document policies and procedures to provide staff guidance and to provide accountability standards for the consistent completion of transactions

Staff continue to address the risk associated with 12 audit recommendations for the reporting period (including three from an E-Session audit report.)



*E-Session Audit Recommendations Not Included

Contents

Purpose and Standards

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

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

Governmental Auditing Standards:

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

International Standards for the Professional Practice of Internal Auditing:

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

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

FY2019-2020 1st Quarter – Audit Recommendations

During the first quarter of FY2019-2020, IA completed two carryover audit projects from FY2018-2019. The Bonds Summary report identified no audit recommendations and served as an informative report. The Benefits and Enrollment Audit Report identified 15 audit recommendations. The recommendations were incorporated into the chart below for future monitoring by IA.

Summary Total - Open Audit Recommendations

Beginning of 2nd Quarter FY2019-2020

Risk Rating	Beginning Balance (June 19, 2019)	New FY2018-2019 4th Quarter	New FY2019-2020 1st Quarter	Complete	Currently Open August 20, 2019
High	3	2	5	3	7
Moderate	4	3	5	4	8
Low	0	7	5	5	7
Total	7	12	15	12	22

Methodology

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

All recommendations reviewed were categorized as follows:

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

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

No.	Department Report Title	Report Date	Recommendation	Status as of August 19, 2019	Management Update Comments August 19, 2019	Risk Level
1	City Clerk's Office Public Records Request	8/14/2017	Review the copy fee schedule rates and make adjustments as necessary. The review should include, but not limited to establishing a minimum service level at which fees will be assessed.	Ongoing - On Track	The fee update is scheduled for this fall and expected to be completed by October 2019.	Moderate
2	City Clerk's Office Public Records Request	8/14/2017	Work in conjunction with the Finance Department to: Submit a complete public records requests fee schedule to City Council for review and approval by resolution Replace the current copy fees statement on the bottom of the City Clerk Form with "Copy fees will be assessed in accordance with the adopted Citywide Fee Schedule"	Ongoing - On Track	The fee update is scheduled for this fall and expected to be completed by October 2019.	Moderate
3	Parks and Recreation Program Registration	10/11/2018	Develop and document a revenue control and management policy that includes billing and collection practices. The policy should include, but not limited to: Establishing a collection time frame Establishing dollar threshold for authorizing write-offs Requiring documentation and written authorization to write-off accounts receivable Adequately documenting and retaining support for adjustments, write-offs, and collection efforts Using the City collection contract, when appropriate Periodically reconciling subsystems to financial systems throughout the fiscal year Ensuring all applicable transactions processed in subsystems are reflected in the City's financial system promptly	Ongoing- Delayed	The Finance Department's Revenue Control and Management Policy is still being finalized and is due to be released very soon. The Parks and Recreation Department will draft procedures once the final policy has been completed. The Parks and Recreation Department has continued to work with Finance and Civic Rec to reconcile the financial systems. As of July 1, 2019, Civic Rec has been converted to accrual accounting. An adjusting entry was entered into Civic Rec to create an Accounts Receivable balance for all outstanding Civic Rec balances through June 30, 2019, as well as to make an adjustment for AR balances that were transferred from CLASS. The Credit on Account entry for CLASS credits is still pending. Once that is complete and Finance can reconcile Munis to Civic Rec, then periodic reconciling will be completed.	High
4	Parks and Recreation Program Registration	10/11/2018	Ensuring that all migration CLASS and CivicRec manual adjustments are reflected and reconciled to the MUNIS financial system.	Ongoing- Delayed	The Parks and Recreation Department has continued to work with Finance and Civic Rec to reconcile the financial systems. As of July 1, 2019, Civic Rec has been converted to accrual accounting. An adjusting entry was entered into Civic Rec to create an Accounts Receivable balance for all outstanding Civic Rec balances through June 30, 2019, as well as to make an adjustment for AR balances that were transferred from CLASS. The Credit on Account entry for CLASS credits is still pending. Once that is complete and Finance can reconcile Munis to Civic Rec, then periodic reconciling will be completed.	High
5	Parks and Recreation Program Registration	10/11/2018	Work with the Finance Department to ensure that asset and liability accounts associated with the registration system are reconciled more frequently than annually.	Ongoing- Delayed	The Parks and Recreation Department has continued to work with Finance and Civic Rec to reconcile the financial systems. As of July 1, 2019, Civic Rec has been converted to accrual accounting. An adjusting entry was entered into Civic Rec to create an Accounts Receivable balance for all outstanding Civic Rec balances through June 30, 2019, as well as to make an adjustment for AR balances that were transferred from CLASS. The Credit on Account entry for CLASS credits is still pending. Once that is complete and Finance can reconcile Munis to Civic Rec, then periodic reconciling will be completed. An SOP will be completed once the reconciling has occurred and the procedures with Finance can be finalized.	Moderate
6	Parks and Recreation Program Registration	10/11/2018	Develop and document a Revenue Control Policy that includes, but is not limited to: Timely reconciliation to applicable general ledgers Recording all receipts and receivables in accordance with GAAP	Ongoing- Delayed	The Finance Department's Revenue Control and Management Policy is still being finalized and is due to be released very soon. The Parks and Recreation Department will draft procedures once the final policy has been completed. The Parks and Recreation Department has continued to work with Finance and Civic Rec to reconcile the financial systems. As of July 1, 2019, Civic Rec has been converted to accrual accounting. An adjusting entry was entered into Civic Rec to create an Accounts Receivable balance for all outstanding Civic Rec balances through June 30, 2019, as well as to make an adjustment for AR balances that were transferred from CLASS. The Credit on Account entry for CLASS credits is still pending. Once that is complete and Finance can reconcile Munis to Civic Rec, then periodic reconciling will be completed.	Moderate
7-9	E-Session	2/4/2019	E-Session	Ongoing - Delayed	Three ongoing recommendations	E-Session

Audit Observation Risk Rating

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

No.	Division/ Department	Report Date	Recommendation	Status as of August 19, 2019	Management Update Comments August 19, 2019	Risk Level
10	Human Resources Payroll Error Review	5/7/2019	HR Management should define and document procedures for making changes to the employee salary records in Munis which are currently made on an ad hoc basis outside of Munis workflows. The HR Department should determine which of the following procedures is most efficient and document the processes to be utilized: a. For appropriate change management related to payroll, the process for making changes outside of Munis workflow authorization should include, at a minimum, the following steps: i. Documentation of authorization to make change; ii. Review of changes after being made in Munis for accuracy, agreement to supporting documentation, and reasonableness of impact on payroll by an individual independent of the process; iii. Retention of appropriate supporting documentation b. Alternatively, make any changes to the employee salary record utilizing the Munis workflow approval process; meaning changes are made in a pending environment and then approved by appropriate personnel before being made active. Appropriate authorization and segregation of duties between the change-maker and review should be in place and controlled through systematic access limitations.	Ongoing - On Track	A draft SOP has been created, but we are adding additional content to that SOP as a result of the Benefits and Enrollment Audit. Since drafting the SOP, the scope has changed from just focusing on LIVE system data changes to incorporate "HR Data Changes and Audit Process." This continues to be reviewed by HR and payroll staff and a final version should be completed by September 30, 2019 (per the deadline in the Benefits and Enrollment Audit).	High
11	Human Resources Payroll Error Review	5/7/2019	HR Management should implement a review of pay rates during each biweekly payroll to identify any erroneous changes impacting employee pay until a permanent payroll changes report review is implemented. For more details on the implementation of a payroll changes report, refer to the forthcoming Benefits and Enrollment Audit Report.	Ongoing - On Track	HR and IT staff meet most recently on July 9th to discuss this report. Estimated completion date is September 30, 2019.	Low
12	Human Resources Payroll Error Review	5/7/2019	HR Management should consider the feasibility of utilizing the employee notification program within Munis to send an automated message to an employee if a change was made to key fields, like pay rate, in their employee record. The notification text should align with the EPM which states that if an employee believes the change was made in error, they should report to their supervisor or HR.	Ongoing - On Track	HR and IT staff meet most recently on August 8th to discuss this functionality. Estimated completion date is September 30, 2019.	Low

Audit Observation Risk Rating

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

Exhibit B
Completed Audit Recommendations

No.	Department Report Title	Report Date	Recommendation	Status as of August 19, 2019	Management Update Comments August 19, 2019	Risk Level
1	Parks and Recreation Accounts Payable Continuous Review	4/15/2019	The department should work with Finance to obtain an understanding of the discount process and ensure that applicable staff is appropriately trained. Discount procedures should be documented in the department's accounting procedures. Ensure that A/P invoices are entered in Munis in a timely manner that will allow adequate time to take advantage of all available discounts.	Complete	Staff have been trained and are now reviewing invoices for discount payment terms. Procedures have been updated to reflect discounted payment terms.	Low
2	Finance Accounts Payable Continuous Review	4/15/2019	Develop a policy and procedure to periodically review the Vendor Master File for duplicate vendors and other potential anomalies. All policies and procedures should be documented and made easily accessible to staff.	Complete	A new duplicate vendor procedure has been developed and was approved and finalized on May 15th. The Accounts Payable team will review the vendor master file on a quarterly basis to ensure there are no duplicate vendors. A review of the vendor master file was completed June 24, 2019 and any issues identified were corrected.	Moderate
3	Finance Accounts Payable Continuous Review	4/15/2019	Work with the applicable City staff to ensure that identified refunds are received. Develop periodic procedures to review A/P transactions for duplicate payments. The procedure may include such step as utilizing Excel "Fuzzy Matching" functionality.	Complete	The Accounts Payable Team is now reviewing the monthly statements from vendors and contacting departments to ensure invoices and credits are being entered and processed appropriately. If monthly statements from vendors do not properly reflect city payments, the Accounts Payable Team is working with the vendor and department to correct future statements to ensure duplicate payments are not made. The Finance Department has also established procedures to monitor for duplicate payments on quarterly basis through the "Fuzzy Lookup" add-in tool of Microsoft Excel. The first quarterly review for duplicate payments from the prior audit scope through June 30, 2019 will be completed by the end of August 2019.	Moderate
4	Finance Accounts Payable Continuous Review	4/15/2019	Polices and procedures for A/P should be formally documented and made easily accessible for staff. Duplicate credit memos should be researched and deleted from the A/P module within thirty business days from the date of the management response.	Complete	All duplicate credit memos were corrected in the system as of June 14, 2019. Credits outstanding as of July 31, 2019 have been requested as refunds (checks) from the vendors as of August 13, 2019 if there were no available FY19 invoices to apply the credits.	Moderate
5	IT Department Parks and Recreation Program Registration	10/11/2018	Update policies and procedures to provide departments with additional guidance for managing cloud computing contracts and change management activities not processed by the IT Department	Complete	IT Policy 201 published on the intranet.	High
6-17	E-Session	2/4/2019	E-Session	Complete	12 recommendations are complete.	E-Session

Audit Observation Risk Rating

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

Audit Committee

September 25, 2019
3:30 PM

Audit Committee

SURPRISE ARIZONA

Ordinance #2019-23 City Council Approved September 5, 2019:

---

1. City Council Audit Committee members are Appointed by the Mayor
2. Updated Audit Committee Department Staff Members from "Voting" to "Non-Voting" Members Appointed by the City Manager
3. Deleted Administrative Purpose Statement
4. Additional Subsection 2-304(e) – Quorum and Voting
   a) Quorum of the Audit Committee Consist of Three Voting Members, One of Whom Shall be a Council Member
   b) Majority Defined as Half of the Voting Members

Audit Committee

Update to By Laws

1. Incorporated Ordinance 2019-23 City Council Approved Changes

2. Updated Language and Requirements for Briefing City Council on Audit Observations and Recommendations

Audit Committee

SURPRISE
ARIZONA

Audit Projects Update:

- ✓ Bond Summary Report
- ✓ Benefits and Enrollment Audit Report
- ✓ Quarterly Audit Recommendation Status Report

Audit Committee

SURPRISE
ARIZONA

Bond Summary Report

Review Objectives:

The review objective was to determine if bond funds were spent appropriately for the purposes voted on by residents.

Conclusion:

Bond funds for pavement preservation were being spent in alignment with voter-approved purposes. No material observations or recommendations for improvement were noted.

Audit Committee

SURPRISE ARIZONA

Benefits and Enrollment Audit Report

Audit Objectives:

The objective of the audit was to determine whether controls are in place to determine enrollment eligibility for health, dental, and vision benefits as per City's definition of eligibility. The audit also assessed City compliance with healthcare provider agreements.

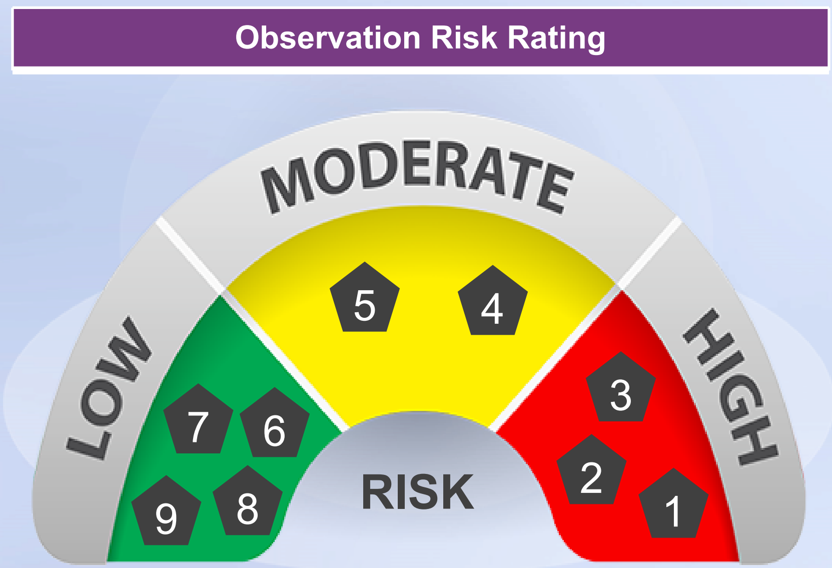
Conclusion:

Defined controls exist around employee and dependent enrollment, vendor procurement and payment, continuing coverage, and contract and regulatory compliance to materially ensure the accuracy and completeness of benefits enrollment. Observations were identified related to formalizing segregation of duties in roles and system access, implementing periodic monitoring, and enhancing documentation of policies and procedures.

Benefits and Enrollment Audit Report

Observations:

- *High Risk* – Monitoring payroll deduction changes, regulatory compliance, and records accuracy
- *Medium* – Documenting centralized monitoring of open items and HR function segregation of duties
- *Low* – Monitoring application user access, contracted performance guarantees, and determining feasibility of increased Munis use and periodic dependent eligibility audits



Audit Committee

SURPRISE
ARIZONA

Quarterly Audit Recommendation Status Report

FY2019-2020 Currently Open Recommendations

Risk Rating	Beginning Balance (June 19, 2019)	New FY2018-2019 4th Quarter	New FY2019-2020 1st Quarter	Complete	Currently Open August 20, 2019
High	3	2	5	3	7
Moderate	4	3	5	4	8
Low	0	7	5	5	7
Total	7	12	15	12	22

Audit Committee

SURPRISE
ARIZONA

Quarterly Audit Recommendation Status Report

Common Observation Trends:

- Lack of departmental reconciliation and review of transactions and account balances to ensure accuracy and completeness of data
- Lack of document policies and procedures to provide staff guidance and to provide accountability standards for the consistent completion of transactions

AUDIT COMMITTEE

September 25, 2019

Thank You