



CITY AUDITOR'S OFFICE

FY 2021/22 Follow Up on Status of Audit Recommendations

June 13, 2022

REPORT NO. 2210

CITY COUNCIL

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June 13, 2022

Honorable Mayor and Members of the City Council:

Enclosed is the *FY 2021/22 Follow Up on Status of Audit Recommendations* report, which was included on the Council-approved FY 2021/22 Audit Plan. This report presents the auditor-determined status of 197 audit recommendations from audits issued between July 2018 and April 2022. This annual report encompasses a 3-year history plus about 10 months of the current fiscal year's audit recommendations.

Overall, 90% of audit recommendations have been substantially addressed, with their status noted as implemented, in progress or partly implemented. Management action on audit recommendations has increased by almost 13 percentage points, from about 77% in the first follow up report in 2009.

Audits conducted during FY 2021/22 have identified quantifiable potential financial impact of about \$2.0 million. In addition, this year's audits have identified process and control improvements for areas such as economic development programs, crime reporting statistics, and parks and recreation resource management. Other reports assessed the City's compliance with external requirements, such as the City's annual comprehensive financial reporting and uses of state and federal funding, and selected city contractors' compliance with required use of the E-Verify system.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

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RESULTS

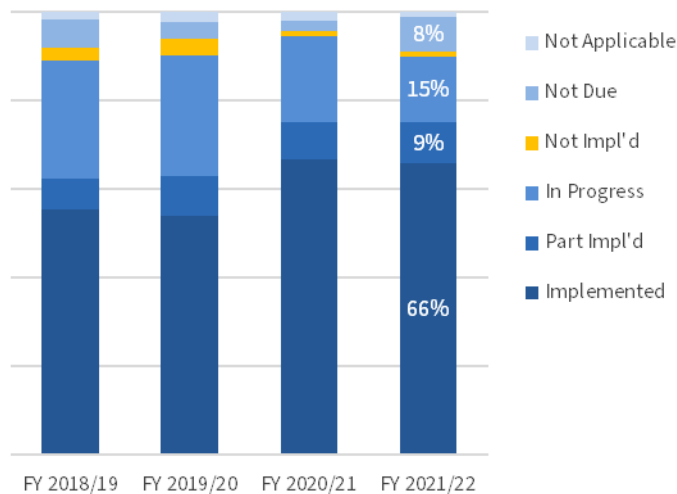
This annual *Follow Up on Status of Audit Recommendations* was included on the Council-approved FY 2021/22 Audit Plan. This annual report encompasses a 3-year history plus about 10 months of the current fiscal year, with 197 audit recommendations issued between July 1, 2018, and April 30, 2022.

Implemented, In Progress or Partly Implemented

As shown in the graphic, about 66% of audit recommendations have been implemented, 9% are partly implemented, and another 15% are in progress. Together, these statistics are about 5 percentage points lower than last year’s 95% total. This results from a larger number of recommendations in this year’s third quarter reports that are not yet due for updates.

Overall, departments are resolving audit recommendations more quickly. Open audit recommendations have been, on average, open for 6 months after audit issuance. This is less than half of last year’s 14-month average. As well, only 10 audit recommendations, about half as many as in previous years, have been open for one year or more.

Implementation Status by Fiscal Year



SOURCE: City Auditor’s follow up database.

Comparison with First Follow-Up Report

The first three categories together reflect that management is currently in some stage of implementing about 90% of audit recommendations, which is a 13-percentage point improvement over the first status report in September 2009. At that time, management was in some stage of addressing 77% of the 445 recommendations reviewed.¹

As well, in September 2009, management was not implementing 8.3% of the recommendations compared to 1% currently identified as not being implemented. Attachment D lists the two recommendations with no further management action currently planned.

¹ The initial 2009 status review encompassed audits from the previous 5 fiscal years. Statistics in this report cover less than 4 years each (audits from the 3 preceding fiscal years plus 9 to 10 months of the current fiscal year).

Additional Information

Page 5 of this report provides a link to the detailed status for all audit recommendations included in the FY 2021/22 statistics. Page 7 provides links to implementation status reports summarized by division, department or office; by audit report; and by fiscal year. Other linked attachments list the recommendations that have not been implemented and the potential financial impacts identified for audit reports.

DIVISION/DEPARTMENT/OFFICE ACRONYMS USED IN ATTACHMENTS

Acronym	Division/Department/Office *
Air	Airport
Attny	City Attorney
Auditor	City Auditor
Clerk	City Clerk
CM	City Manager
Comm	Communications
Court	City Court
CS	Community Services
EcDev	Economic Development
Fire	Fire Department
HR	Human Resources
IT	Information Technology
PlanDev	Planning & Development
Police	Police Department
Purch	Purchasing
PW	Public Works
TourEv	Tourism & Events
Trans	Transportation
Treas	City Treasurer
WR	Water Resources (Scottsdale Water)
WW	WestWorld

* While the attachments reference “division/office,” many of these are now department names after reorganizations. For example, the Planning & Development, Economic Development, and Tourism & Events departments are currently combined into the Planning, Economic Development & Tourism Division. For continuity, the audit follow ups are tracked using the applicable names.

DETAILED STATUS OF AUDIT RECOMMENDATIONS

[Link](#) to the 77-page detailed report.

SUMMARIZED STATUS OF AUDIT RECOMMENDATIONS

The following attachments are included in this report:

- A. Status summarized by [Division or Office](#).
- B. Status summarized by [Audit Report](#).
- C. Status summarized by [Fiscal Year of the audit report](#).
- D. [Not Implemented](#) recommendations.
- E. [Audit reports with estimated cost savings, revenues or other financial impacts](#). This list also includes brief explanatory comments regarding the potential impact, including some not quantified.

Attachment A - Status by Division/Office

Division/Office	Implemented	In Progress	Part Impl'd	Not Impl'd	Not Applicable	Not Due	Total
Air	9						9
CS	15	9	3			6	33
EcDev	6						6
Fire	16	1	3				20
HR	8						8
IT	4	1					5
PlanDev	6						6
Police	17		1			8	26
Purch	13		1			1	15
PW	22	9	8	2	3		44
TourEv	2	10					12
Treas	13						13
Grand Total	131	30	16	2	3	15	197

Attachment B - Status by Audit Report

Division	Implemented	In Progress	Part Impl'd	Not Impl'd	Not Applicable	Not Due	Total
1902	E-Verify Compliance During FY 2017/18				Audit Issued:	9/12/2018	
Purch	1						1
	1						1
1904	ActiveNet Application Controls				Audit Issued:	5/9/2019	
CS	7		3				10
	7		3				10
1905	Infrastructure Condition Assessment				Audit Issued:	6/14/2019	
PW	2	1	3				6
	2	1	3				6
1906	Cash Handling Controls and Accountability				Audit Issued:	3/7/2019	
CS	2	4					6
	2	4					6
1907	Police Special Revenues				Audit Issued:	1/16/2020	
Police	12		1				13
	12		1				13
1908	Fire & Life Safety Inspections				Audit Issued:	11/2/2018	
Fire	11						11
	11						11
1909	Southwest Gas Franchise Agreement				Audit Issued:	9/14/2018	
PW	3				1		4
	3				1		4
1910	Utility Billing				Audit Issued:	1/17/2019	
Treas	4						4
	4						4

Attachment B - Status by Audit Report

Division	Implemented	In Progress	Part Impl'd	Not Impl'd	Not Applicable	Not Due	Total
1911	Revenue Recovery				Audit Issued: 9/3/2019		
Treas	9						9
	9						9
1912	Fleet Parts Operation				Audit Issued: 4/26/2019		
PW	6						6
	6						6
1913	Benefits Administration				Audit Issued: 1/16/2019		
HR	8						8
	8						8
1917	Landfill Recycling Cost Review				Audit Issued: 9/3/2019		
PW	2				2		4
	2				2		4
2003	Police Technology Services				Audit Issued: 8/4/2020		
Police	5						5
	5						5
2004	Airport Terminal Area Redevelopment Construction Contract				Audit Issued: 6/4/2020		
Air	9						9
	9						9
2005	Facilities Management Contract Administration				Audit Issued: 1/13/2020		
PW	6		1				7
	6		1				7
2006	Scottsdale's Museum of the West Contract				Audit Issued: 3/3/2020		
TourEv	2						2
	2						2

Attachment B - Status by Audit Report

Division	Implemented	In Progress	Part Impl'd	Not Impl'd	Not Applicable	Not Due	Total
2007	Crime Reporting Statistics				Audit Issued:	4/14/2022	
Police						8	8
						8	8
2008	Fleet Operations				Audit Issued:	8/7/2020	
PW	3		4	1			8
	3		4	1			8
2009	Ambulance Services Contract				Audit Issued:	10/8/2020	
Fire	5	1	3				9
	5	1	3				9
2010	Warehouse Operations				Audit Issued:	10/31/2019	
Purch	12		1				13
	12		1				13
2106	Network Security Audit				Audit Issued:	5/3/2021	
IT	4	1					5
	4	1					5
2107	Fire Station Construction Contracts				Audit Issued:	3/24/2021	
PW		8		1			9
		8		1			9
2108	Code Enforcement Operations				Audit Issued:	1/29/2021	
PlanDev	6						6
	6						6
2109	Housing Rehabilitation and Repair Programs				Audit Issued:	6/11/2021	
CS	6	1					7
	6	1					7

Attachment B - Status by Audit Report

Division	Implemented	In Progress	Part Impl'd	Not Impl'd	Not Applicable	Not Due	Total
2113	Coronado Golf Course Lease				Audit Issued:	1/11/2022	
CS		4					4
		4					4
2114	Economic Development Programs				Audit Issued:	8/17/2021	
EcDev	6						6
	6						6
2202	E-Verify Compliance During FY 2020/21				Audit Issued:	3/21/2022	
Purch						1	1
						1	1
2206	Destination Marketing Contract				Audit Issued:	1/4/2022	
TourEv		10					10
		10					10
2208	Parks and Recreation Resource Management				Audit Issued:	3/24/2022	
CS						6	6
						6	6
Grand Total	131	30	16	2	3	15	197

Attachment C - Status by Fiscal Year

FY Published	Audit#	Audit Name	Impl'd	In Progress	Part Impl'd	Not Impl'd	Not Applicable	Not Due	Total
2019									
	1902	E-Verify Compliance During FY 2017/18	1						1
	1904	ActiveNet Application Controls	7		3				10
	1905	Infrastructure Condition Assessment	2	1	3				6
	1906	Cash Handling Controls and Accountability	2	4					6
	1908	Fire & Life Safety Inspections	11						11
	1909	Southwest Gas Franchise Agreement	3				1		4
	1910	Utility Billing	4						4
	1912	Fleet Parts Operation	6						6
	1913	Benefits Administration	8						8
		FY Totals	44	5	6		1		56
2020									
	1907	Police Special Revenues	12		1				13
	1911	Revenue Recovery	9						9
	1917	Landfill Recycling Cost Review	2				2		4
	2004	Airport Terminal Area Redevelopment Construction Contract	9						9
	2005	Facilities Management Contract Administration	6		1				7
	2006	Scottsdale's Museum of the West Contract	2						2
	2010	Warehouse Operations	12		1				13
		FY Totals	52		3		2		57
2021									
	2003	Police Technology Services	5						5
	2008	Fleet Operations	3		4	1			8

Attachment C - Status by Fiscal Year

FY Published	Audit#	Audit Name	Impl'd	In Progress	Part Impl'd	Not Impl'd	Not Applicable	Not Due	Total
	2009	Ambulance Services Contract	5	1	3				9
	2106	Network Security Audit	4	1					5
	2107	Fire Station Construction Contracts		8		1			9
	2108	Code Enforcement Operations	6						6
	2109	Housing Rehabilitation and Repair Programs	6	1					7
		FY Totals	29	11	7	2			49
2022									
	2007	Crime Reporting Statistics						8	8
	2113	Coronado Golf Course Lease		4					4
	2114	Economic Development Programs	6						6
	2202	E-Verify Compliance During FY 2020/21						1	1
	2206	Destination Marketing Contract		10					10
	2208	Parks and Recreation Resource Management						6	6
		FY Totals	6	14				15	35
		Grand Total	131	30	16	2	3	15	197

Attachment D - Detail of Not Implemented Recommendations

Audit#	Audit Name	Issued	Auditor FollowUp
Find#	Finding	Rec#	Recommendation
2008	Fleet Operations	8/7/2020	Division PW
1	Fleet Management can improve its replacement rate methodology and the accuracy and consistency of its application. Fleet Management does not consider salvage value in the calculation of replacement fees, although it receives approximately \$650,000 per year, averaging about 12% of the original vehicle costs, from auctioned vehicles.	1B	The Fleet Management Director should use historical vehicle auction proceeds to estimate vehicles' salvage values in the replacement fee calculations.
			Jan 2021: The department is discussing with the Assistant City Manager, the Acting City Treasurer, and Budget its vehicle rate calculations. May 2021: The department reported that based on the vehicle rate discussion, salvage revenues will continue to be used in the Fleet Fund as overhead reimbursement rather than applied to reduce vehicle replacement rates.
2107	Fire Station Construction Contracts	3/24/2021	Division PW
1	Construction phase service contracts should be more consistently managed to minimize unnecessary costs. Including construction phase services during the initial contract negotiations may more effectively control costs and produce more transparent design costs.	1D	The Public Works Director should require CPM to evaluate the design contracting process to include construction phase services in the contract's scope of work, rather than adding it later as a change order.
			Sept 2021: The City Engineer reported that CPM prefers to add the construction phase services when the design is nearly complete to ensure the design consultant has performed satisfactorily prior to awarding more work.

Attachment E - Estimated Cost Savings/Revenues

Issued	Audit#	Audit Name	Estimated Savings/Revenues	Notes
FY 2019				
9/12/2018	1902	E-Verify Compliance During FY 2017/18	\$0	
9/14/2018	1909	Southwest Gas Franchise Agreement	\$146,100	est underpayments + late payment interest charges
11/2/2018	1908	Fire & Life Safety Inspections	\$0	
11/23/2018	1901	FY 2017/18 Financial and Compliance Audit	\$0	
1/16/2019	1913	Benefits Administration	\$33,500	\$21,750 in Wellness/Health Improvement funds not used; \$11,750 for deferred compensation administrative costs in City's General Fund. Also, benefit contracts procured through third parties without doc.
1/17/2019	1910	Utility Billing	\$20,000	PV customers overcharged ~\$14k plus misc billing errors noted in testing.
2/22/2019	1903	Biennial Certified Audit of Land Use Assumptions, Infrastructure Improvements Plan and Development Impact Fees (July 1, 2016 to June 30, 2018)	\$0	
3/7/2019	1906	Cash Handling Controls and Accountability	\$10,740	CY 2018 monies processed through a third-party payment processing site without controls
4/26/2019	1912	Fleet Parts Operation	\$355,000	Est'd fin'l impact includes inventory variances, inactive and obsolete parts, and low value supplies in inventory. Related, approx 90% of parts inventory on hand exceeds a 90-day supply.
5/9/2019	1904	ActiveNet Application Controls	\$0	
5/10/2019	1916	Scottsdale Transit Program's National Transit Database Financial Data Review	\$0	
6/14/2019	1905	Infrastructure Condition Assessment	\$0	
6/14/2019	1914	FY 2018/19 Follow Up on Status of Audit Recommendations	\$0	
6/17/2019	1915	FY 2018/19 Report on the City Auditor's Integrity Line	\$0	
Summary for 'FYPubl' = 2019 (14 records)			\$565,340	

Attachment E - Estimated Cost Savings/Revenues

Issued	Audit#	Audit Name	Estimated Savings/Revenues	Notes
FY 2020				
9/3/2019	1911	Revenue Recovery	\$1,356,775	includes customer paying collection agency fee and value of accounts with little or no documented collection effort or use of state debt set-off program.
9/3/2019	1917	Landfill Recycling Cost Review	\$1,676,402	estimated net additional cost if subcontractor's proposed contract changes were adopted. Audit also identified specific questioned costs of almost \$418,000 and undocumented labor costs representing about 60% of total costs.
10/18/2019	2001	FY 2018/19 Financial and Compliance Audit	\$0	
10/31/2019	2010	Warehouse Operations	\$51,100	Estimates include potential TPT for undocumented tax exemptions, auction refund without item return, added cost for example item (nitrile gloves) and inventory variances identified in limited available records.
1/13/2020	2005	Facilities Management Contract Administration	\$164,000	custodial contractor overpayments over 2-1/2 years.
1/16/2020	1907	Police Special Revenues	\$0	
3/3/2020	2006	Scottsdale's Museum of the West Contract	\$77,000	The City continued paying for utilities for 5-1/2 years.
5/5/2020	2002	E-Verify Compliance During FY 2018/19	\$0	
6/4/2020	2011	FY 2019/20 Follow Up on Status of Audit Recommendations	\$0	
6/4/2020	2004	Airport Terminal Area Redevelopment Construction Contract	\$379,000	Amounts the CMAR charged the City that exceeded the CMAR's subcontractor costs, including change orders.
6/4/2020	2012	FY 2019/20 Report on the City Auditor's Integrity Line	\$0	
Summary for 'FYPubl' = 2020 (11 records)			\$3,704,277	

Attachment E - Estimated Cost Savings/Revenues

Issued	Audit#	Audit Name	Estimated Savings/Revenues	Notes
FY 2021				
8/4/2020	2003	Police Technology Services	\$0	
8/7/2020	2008	Fleet Operations	\$1,571,200	Table 8 over/under charges; Table 9 underused vehicles.
10/8/2020	2009	Ambulance Services Contract	\$2,600	billing errors
10/16/2020	2101	FY 2019/20 Financial and Compliance Audit	\$0	
11/25/2020	2110	Scottsdale Transit Program's National Transit Database Financial Data Review	\$0	
1/22/2021	2102	E-Verify Compliance During FY 2019/20	\$0	
1/28/2021	2104	City Court's Compliance with Minimum Accounting Standards	\$0	
1/29/2021	2108	Code Enforcement Operations	\$0	
3/16/2021	2103	Biennial Certified Audit of the City's Land Use Assumptions, Infrastructure Improvement Plans and Development Fees (contracted)	\$0	
3/24/2021	2107	Fire Station Construction Contracts	\$0	savings potential identified in design consultant's construction phase costs, change order work and cost control, overhead rates, and force acct use.
5/3/2021	2106	Network Security Audit	\$0	
6/9/2021	2111	FY 2020/21 Follow Up on Status of Audit Recommendations	\$0	
6/10/2021	2112	FY 2020/21 Report on the City Auditor's Integrity Line	\$0	
6/11/2021	2109	Housing Rehabilitation and Repair Programs	\$1,600	approx value of change order duplicated work in sample
Summary for 'FYPubl' = 2021 (14 records)			\$1,575,400	

Attachment E - Estimated Cost Savings/Revenues

Issued	Audit#	Audit Name	Estimated Savings/Revenues	Notes
FY 2022				
8/17/2021	2114	Economic Development Programs	\$0	Approx \$2.7 million unspent for small business assistance program for pandemic aid.
10/5/2021	2105	External Quality Control Review of the City Auditor's Office, CYs 2018-2020	\$0	
10/13/2021	2116	Scottsdale Unified School District No. 48 Hohokam Bond Project	\$0	for SUSD: Potential savings approx \$300K; questioned costs of \$1.8 million could provide added savings; 4 Findings with 16 Recs.
10/20/2021	2201	FY 2020/21 Financial and Compliance Audit	\$0	
1/4/2022	2206	Destination Marketing Contract	\$2,000,000	Approx City share of increase in net assets resulting from reduced destination marketing expenses during pandemic.
1/11/2022	2113	Coronado Golf Course Lease	\$9,400	Estimated overdue lease payment owed for January 1 to June 30, 2021. An additional \$6,400 had accrued by October 31, 2021, but was not yet due to be paid.
3/21/2022	2202	E-Verify Compliance During FY 2020/21	\$0	
3/24/2022	2208	Parks and Recreation Resource Management	\$0	recs for improved availability of information to facilitate resource use.
4/14/2022	2007	Crime Reporting Statistics	\$0	
6/10/2022	2203	Wireless Network Security	\$0	
6/13/2022	2210	FY 2021/22 Follow Up on Status of Audit Recommendations	\$0	
6/14/2022	2211	FY 2021/22 Report on the City Auditor's Integrity Line	\$0	
6/15/2022	2207	City Clerk Operations	\$0	
Summary for 'FYPubl' = 2022 (13 records)			\$2,009,400	
Summary Report Count = 52		Grand Total	\$7,854,417	

City Auditor's Office

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Sharron Walker, City Auditor

The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability and integrity.