

# CITY COUNCIL REPORT



Meeting Date: July 6, 2016  
 Charter Provision: *Provide for the orderly government and administration of the affairs of the City*  
 Objective: *Adopt Annual Audit Plan*

## **ACTION**

**Adoption of the City Auditor's Fiscal Year 2016/17 Audit Plan.** Consider and approve the City Auditor's FY 2016/17 Audit Plan, as recommended by the Council's Audit Committee at its June 20, 2016, meeting.

## **BACKGROUND**

Scottsdale City Charter establishes the City Auditor as a Council-appointed officer and City Code provides parameters for operation of the City Auditor's Office. The Office was established to independently evaluate the operational efficiency and effectiveness, compliance and accountability of City departments, offices, boards, activities and agencies. The Office conducts its audits in accordance with generally accepted government auditing standards, which provide a framework for conducting high quality audits with competence, integrity, objectivity and independence.

City Code also establishes an Audit Committee of three City Council members appointed by the Mayor with the approval of the Council. Councilwoman Suzanne Klapp is currently serving as the chair; Councilmember Virginia Korte and Vice Mayor Kathy Littlefield serve as committee members.

At least annually, the City Auditor is required to submit to the Audit Committee for its review and recommendation an Audit Plan listing the areas to be audited. The City Auditor is then to submit the recommended Audit Plan to the Council for its review and approval.

The City Auditor presented potential audit topics for the FY 2016/17 Audit Plan at the Audit Committee's April 18, 2016, meeting. On June 20, 2016, the Audit Committee reviewed and voted (3-0) to approve the proposed FY 2016/17 Audit Plan (Attachment 1) for recommendation to the Council.

## **ANALYSIS & ASSESSMENT**

### **Development of the Audit Plan**

The City Auditor's office has implemented a Risk Assessment Model to inform its annual audit planning process. This model, designed to facilitate evaluation of City activities for prioritization, assesses factors such as the following:

- *Size and significance*, such as full time equivalent positions, revenues or expenditures, and critical nature of the function.

- *Known significant changes to a program, related legal requirements or key information systems.*
- *Performance measures; safety and liability measures; known Council, management and/or public interest; accessibility and reliability of financial and/or operational reports.*
- *Mitigating factors, such as external agency reviews or recent City audits.*

As well, the City Auditor contracted with KPMG to perform an IT Risk Assessment of the City's significant resources to provide a basis for identifying risk areas for future information technology audits. This risk assessment considered information system risk factors of:

- *Availability* – The risk associated with system downtime (e.g., hardware malfunctions, outages, disasters, etc.).
- *Integrity* – The risk associated with corrupt, erroneous, inaccurate or incomplete data (e.g., algorithms, calculations, reports, etc.).
- *Security* – The risk associated with unauthorized access to the system (both logical and physical).
- *Privacy* – The risk associated with individuals, whether internal or external, gaining unauthorized access to sensitive data (e.g., credit card numbers, SSN, etc.).
- *Confidentiality* – The risk associated with personal and non-personal data being disclosed without authorization.

**Proposed Plan for FY 2016/17.** As listed in Table 1, the FY 2016/17 Plan proposes 15 audits or projects, using a combination of contracted and in-house resources.

**Table 1. FY 2016/17 Proposed Audit Plan**

	<b>Audit/Project</b>	<b>Division/Department</b>
<b>Recurring:</b>		
1	FY 2015/16 External Financial/Compliance Audits (contracted)	Citywide
2	Follow Up on Status of Audit Recommendations	Citywide
3	E-Verify Compliance	Citywide
4	Integrity Line	Citywide
<b>Continued from FY 2015/16 Audit Plan:</b>		
5	Northsight Blvd Construction Contract	Public Works/CPM
6	Preventative Repair and Maintenance	Public Works/Facilities
7	Biennial Certified Audit (contracted)	Water Resources
<b>Proposed Additional:</b>		
8	Patrol Operations	Police
9	Pavement Operations	Public Works/Streets
10	Destination Marketing Contract	Tourism
11	Commercial Solid Waste Operations	Public Works/Solid Waste
12	Benefit Plan Claims Processing (contracted)	Human Resources

13	Information Technology Audit (contracted)	To be determined
14	McDowell Mountain Golf Course Lease	Parks & Rec/Real Estate
15	Capital Project Overhead Charges	Public Works/CPM
<b>Contingency:</b>		
16	Selected Cash Handling Functions	Citywide
17	City Utility Costs	Citywide
18	Fleet Operations	Public Works/Fleet
19	Information Technology Audit (contracted)	To be determined
20	Selected Construction Contract	Public Works/CPM
<b>Other:</b>		
1	Taxpayer Problem Resolution Officer	
2	Sunset Reviews support: <ul style="list-style-type: none"> <li>• Human Services Commission</li> <li>• Judicial Appointments Advisory Board</li> <li>• Transportation Commission</li> <li>• Transportation Commission - Paths &amp; Trails Subcommittee</li> <li>• Airport Advisory Commission</li> <li>• Tourism Development Commission</li> </ul>	
3	Audit Risk Model maintenance	
4	Special Requests during the Audit Plan year	

As noted in Table 1, in addition to audits and related projects, the City Auditor serves as the City’s Taxpayer Problem Resolution Officer (TPRO) and supports the Audit Committee’s sunset reviews of the City’s boards and commissions. As TPRO, the City Auditor reports quarterly on taxpayer surveys regarding the quality of service provided by the City’s tax-related functions. Additionally, the TPRO may issue a taxpayer assistance order that suspends or stays an action that causes a taxpayer undue hardship due to the manner in which the City’s tax laws are being administered. In supporting the Audit Committee’s sunset review process, the City Auditor notifies the scheduled boards and commissions in advance of their upcoming review dates and gathers their annual reports and supplemental information for the Audit Committee’s review.

**Status of FY 2015/16 plan.** Table 2 provides the status of last year’s plan. Thirteen reports were completed and presented to the Audit Committee and 5 Sunset Reviews were completed.

**Table 2. Status of FY 2015/16 Audit Plan**

	<b>Audit/Project</b>	<b>Report Issued</b>
1	McCormick-Stillman Railroad Park Operations	October 2015
2	Special Events Contracts	October 2015
3	Scottsdale Road Improvements, Phase 1	November 2015
4	FY 2014/15 Financial & Compliance Audit	November 2015
5	Human Services Information Controls	January 2016
6	Preserve Operations	February 2016
7	SkySong Residential Rent	February 2016
8	Cash Handling Controls and Accountability	April 2016

9	Human Resources Compliance Programs	June 2016
10	Contracted IT Risk Assessment	June 2016
11	Transit Service Contracts	June 2016
12	FY 2015/16 Follow Up on Audit Recommendations	June 2016
13	FY 2015/16 Annual Report on Integrity Line	June 2016

**Sunset Reviews:**

-	Building Advisory Board of Appeals	August 2015
-	Board of Adjustment	August 2015
-	Environmental Quality Advisory Board	November 2015
-	Historic Preservation Commission	January 2016
-	Human Relations Commission	April 2016

**Historical trend of Audit Plan completion.** Table 3 illustrates the Office’s productivity trends over the last five years.

**Table 3. Historical Trend of Audit Plan Completion and Staffing**

Fiscal Year	Audits/Projects		Available Staff
	Planned	Completed	
2011/12	17	14	5
2012/13	14	14	6
2013/14	15	14	7 †
2014/15	15	16	6
2015/16	14	13	6

\* During FYs 2011/12 and 2012/13, two extended staff absences occurred, so actual staffing was approximately 5 and 6 FTEs, respectively.

† March 2014, staffing level reduced to 6 FTEs. Salary savings used to contract for specialized IT audits.

**RESOURCE IMPACTS**

**Available funding**

The adopted FY 2016/17 budget for the City Auditor’s Office provides \$913,455 and 6 FTE, which includes the City Auditor and 5 professional audit staff. The budget includes contractual services funding for the FY 2015/16 financial and compliance audits and other planned contracted audits.

**Staffing, Workload Impact**

The FY 2016/17 Audit Plan includes 15 planned audits or related reports, such as follow ups on prior audit recommendations. This proposed Audit Plan is expected to be achievable based on the Office’s funding, staffing, experience levels and productivity. The staff has extensive knowledge of City operations as well as advanced degrees and certifications such as Certified Public Accountant, Certified Fraud Examiner, Certified Internal Auditor and Certified Law Enforcement Auditor.

**Cost Recovery Options**

FY 2015/16 audits identified approximately \$1.6 million in potential financial impact and recommended ways to improve controls and accountability over various activities. It is expected that the proposed audits for FY 2016/17 may also identify some potential cost savings or revenue enhancements.

**OPTIONS & STAFF RECOMMENDATION**

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Prior to plan approval, the Council can direct the addition or deletion of any proposed audit. The Audit Plan may be amended during the year after review by the Audit Committee. Additionally, the City Auditor may initiate and conduct any other audit deemed necessary or as directed by the Council.

At its June 20, 2016, meeting, the Audit Committee reviewed and approved the proposed FY 2016/17 Audit Plan.

**Recommended Approach**

Approve the FY 2016/17 Audit Plan as proposed.

**Description of Option B**

Modify the FY 2016/17 Audit Plan and approve the modified plan.

**RESPONSIBLE DEPARTMENT**

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City Auditor's Office

**STAFF CONTACTS**

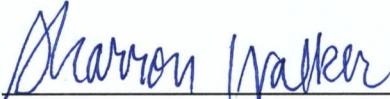
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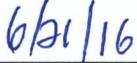
Lai Cluff, Senior Auditor, [LCluff@ScottsdaleAZ.gov](mailto:LCluff@ScottsdaleAZ.gov), 480-312-7851

Sharron Walker, City Auditor, [SWalker@ScottsdaleAZ.gov](mailto:SWalker@ScottsdaleAZ.gov), 480-312-7867

**APPROVED BY**

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Sharron Walker, City Auditor  
480-312-7867, [SWalker@ScottsdaleAZ.gov](mailto:SWalker@ScottsdaleAZ.gov)

  
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Date

**ATTACHMENTS**

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- 1. Proposed FY 2016/17 Audit Plan, with the planned audit objectives.
- 2. Audit Committee marked agenda for June 20, 2016, meeting.

**City Auditor**  
**PROPOSED FY 2016/17 Audit Plan**



**Recurring**

1. **External Financial/Compliance Audits of FY 2015/16** – The City's Charter requires the City Council to designate a CPA firm to perform an independent audit of the City's annual financial statements, with the audit reports to be submitted to the Council. The City Auditor's office will coordinate the external audit firm's contract and reports to the Audit Committee and the Council. These audits include the City's Comprehensive Annual Financial Report and Single Audit as well as state-required reports (Annual Expenditure Limitation, Highway User Revenue Fund (HURF) compliance) and the Municipal Property Corporation, Scottsdale Preserve Authority, and Community Facilities District annual financial reports.
2. **Follow Up on Status of Audit Recommendations** – Review, assess and report on the status of management's corrective actions taken in response to prior audit findings and recommendations. This review, implemented in late 2009, is now required by City Code.
3. **E-Verify Compliance** – For selected City contractors, confirm they are using the E-Verify program as required by state and federal law. The City is required by state statute to check contractor compliance.
4. **Integrity Line** – Investigate tips related to potential fraud, waste or abuse of City resources and annually report on the results.

**Continued from FY 2015/16 Audit Plan**

5. **Northsight Blvd Construction Contract** – Review the procurement, compliance with terms and contract administration of a selected City construction contract. (This audit was added to the approved FY 2015/16 Audit Plan during the year.)
6. **Preventative Repair and Maintenance** – Evaluate the City's preventative repair and maintenance program, including costs and controls. (This audit was originally on the FY 2015/16 Audit Plan but moved to FY 2016/17 to accommodate an added audit.)
7. **Biennial Certified Audit (Contracted)** – Contract for the state-mandated audit of the City's water/wastewater development fees. The audit specified in statute encompasses the Land Use Assumptions, the Infrastructure Improvement Plan and the Development impact fees. (Originally planned for completion in June 2016, this audit is being continued to provide analysis of a full 2 years' data.)

**Planned Additional**

8. **Patrol Operations** – Evaluate the effect of the FY 2016/17 staffing reorganization on previous CPSM study results for Patrol Operations, such as comparative workloads, response times and time spent on calls.
9. **Pavement Operations** – Evaluate the efficiency and cost-effectiveness of the pavement overlay and maintenance program. Voters approved \$12.5 million in general obligation bonds for street pavement replacement.
10. **Destination Marketing Contract** – Evaluate contract compliance, effectiveness and administration of the \$7 - \$8 million destination marketing contract with the Scottsdale Convention and Visitors Bureau.
11. **Commercial Solid Waste Operations** – Evaluate the efficiency and cost-effectiveness of the Solid Waste program's \$3 – \$4 million commercial service operations. This will include analysis of the recent rate increase and operational factors.

12. **Benefit Plan Claims Processing** – Using a contracted specialist, evaluate the accuracy of \$24 – \$26 million medical and dental claims processing by the third party administrator.
13. **Information Technology Contracted Audit**– Using contracted services of a specialist, evaluate the application controls and management of a selected information system or contract.
14. **McDowell Mountain Golf Course Lease** – Evaluate compliance with terms and effectiveness of controls for the City’s golf course lease with White Buffalo Golf LLC.
15. **Capital Project Overhead Charges** – Assess the methodology for and accuracy of charges assessed to capital projects for overhead costs.

### **Contingency**

16. **Selected Cash Handling Functions**– To further evaluate risks identified during cash handling audits, this audit would focus on selected cash handling functions that lack segregation of duties or other mitigating controls.
17. **City Utility Costs** – This audit will evaluate management controls over the City’s utility costs, such as assuring accuracy of billings and evaluating rate plans.
18. **Fleet Operations** – This audit will evaluate Fleet operations, which may include rate analysis, parts inventory control or other areas.
19. **Information Technology Contracted Audit** – Using contracted services of a specialist, evaluate the application controls and management of a selected information system or contract.
20. **Construction Contract Audit** – Review the procurement, compliance with terms and contract administration of a selected City construction contract.

### **Other Projects:**

- o **Taxpayer Problem Resolution Officer**– quarterly and annual reports; required by the City’s Tax Code (Scottsdale Revised Code Appendix C, Art. V §515 and 516)
- o **Sunset Reviews (support):**
  - Human Services Commission – August 2016
  - Judicial Appointments Advisory Board – August 2016
  - Transportation Commission – October 2016
  - Transp. Commission-Paths & Trails Subcommittee – October 2016
  - Airport Advisory Commission – January 2017
  - Tourism Development Commission – April 2017
- o **Audit Risk Model** maintenance
- o **Special requests** during the Audit Plan year

**MARKED AGENDA**



**AUDIT COMMITTEE**

Regular Meeting  
4:00 PM, Monday, June 20, 2016  
City Hall, Kiva Conference Room  
3939 N. Drinkwater Blvd., Scottsdale, AZ 85251

Call to Order / Roll Call **4:03 PM, ALL PRESENT**

Councilwoman Suzanne Klapp, Chair; Councilmember Virginia Korte; Vice Mayor Kathy Littlefield

1. Approval of Minutes **COUNCILMEMBER KORTE MOVED TO APPROVE THE APRIL 18, 2016, REGULAR MEETING MINUTES. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION. APPROVED 3-0.**

REGULAR MEETING	SPECIAL MEETING	EXECUTIVE SESSION
<u>April 18, 2016</u>	none	none

2. Discussion regarding scope and timing of the City's FY 2015/16 Financial Audit, Presenter: Kyla Anderson, Sr. Auditor and Heinfeld Meech representative; Contact: Sharron Walker, City Auditor, (480) 312-7867, [SWalker@ScottsdaleAZ.gov](mailto:SWalker@ScottsdaleAZ.gov)
3. Discussion and possible direction to staff regarding Report No. 1604 Information Technology Risk Assessment, Presenter: Lai Cluff, Sr. Auditor; Contact: Sharron Walker, City Auditor
4. Discussion and possible direction to staff regarding Audit No. 1606 Human Resources Compliance Programs, Presenter: Cathleen Davis, Sr. Auditor; Contact: Sharron Walker, City Auditor
5. Discussion and possible direction to staff regarding Audit No. 1609 Transit Service Contracts, Presenter: Kyla Anderson, Sr. Auditor; Contact: Sharron Walker, City Auditor
6. Discussion and possible direction to staff regarding Report No. 1612 FY 2015/16 Annual Follow Up on Status of Audit Recommendations, Contact: Sharron Walker, City Auditor
7. Discussion and possible direction to staff regarding Report No. 1613 FY 2015/16 Annual Report on City Auditor Integrity Line, Contact: Sharron Walker, City Auditor
8. Discussion and action on Proposed FY 2016/17 Audit Plan, Contact: Sharron Walker, City Auditor **COUNCILMEMBER KORTE MOVED TO APPROVE THE PROPOSED FY 2016/17 AUDIT PLAN AND FORWARD IT TO COUNCIL. VICE MAYOR LITTLEFIELD SECONDED. APPROVED 3-0.**
9. Discussion and possible direction to staff regarding status of FY 2015/16 Audit Plan, Contact: Sharron Walker, City Auditor
10. Discussion and possible direction to staff regarding agenda items for next Audit Committee meeting, Contact: Sharron Walker, City Auditor

**Public Comment**



Persons with a disability may request a reasonable accommodation by contacting the City Auditor's Office at (480) 312-7756. Requests should be made 24 hours in advance or as early as possible to allow time to arrange accommodation. For TTY users, the Arizona Relay Service (1-800-367-8939) may contact the City Auditor's Office at (480) 312-7756.

Citizens may address the Audit Committee members during Public Comment. This "Public Comment" time is reserved for citizen comments regarding non-agendized items. However, Arizona state law prohibits the Audit Committee from discussing or taking action on an item that is not on the prepared agenda.

**Adjournment - 4:57 PM**

City Council members who are not members of the Audit Committee may elect to attend this meeting for their own information. These members will not engage in any deliberations, decisions or other legal action at this meeting.



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