Audit Recommendation Status Report

August 21, 2019

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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.)

*Ongoing Recommendations 1st Quarter - FY2019-2020

High: 3, Moderate: 4, Low: 2
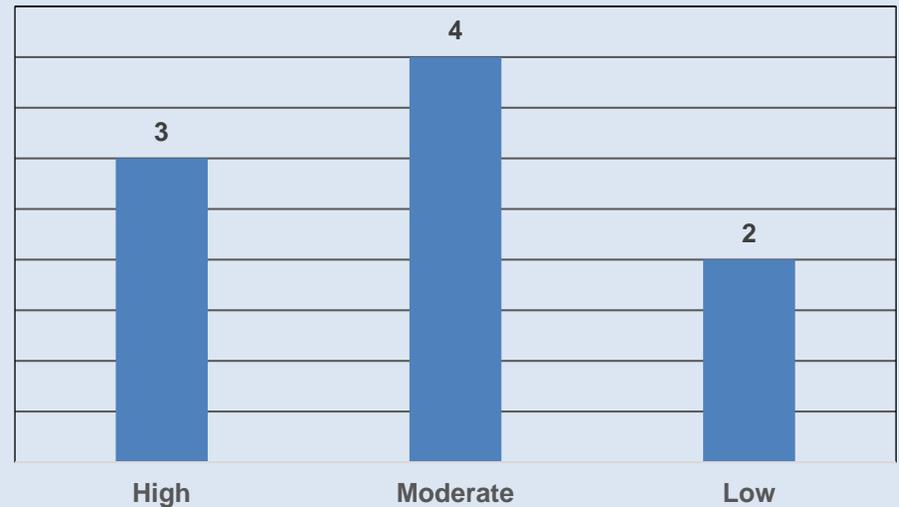
*E-Session Audit Recommendations Not Included

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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:

<u>Governmental Auditing Standards</u>:

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."*

<u>International Standards for the Professional Practice of Internal Auditing</u>:

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

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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

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