



City Council Report

Date: June 23, 2016
To: City Council
From: Jennifer Ruttman, City Auditor
Subject: Proposed Audit Plan for FY 2016/2017

Purpose and Recommendation

The purpose of this report is to request Council approval of the City Auditor's proposed FY 2016/2017 Audit Plan, as recommended by the Audit, Finance and Enterprise Committee on June 20, 2016.

Background

According to the Mesa City Charter, "*The City Auditor shall conduct all audits requested by the City Council or the City Manager to ensure that the City is functioning economically, efficiently, and effectively in accordance with legislative and management directives.*" Each year, an Audit Plan is developed and used to guide our activities for the coming year. The Plan is prepared by the City Auditor and submitted to the Audit, Finance and Enterprise Committee. At that time, the Committee has the opportunity to provide direction, including requests for additional or alternative audits. If approved and recommended by the Committee, the plan is then submitted to the Council for approval.

Discussion

The Audit Plan is developed based on a combination of many factors, including but not limited to the following:

- Requests and/or suggestions received from the City Council, the City Manager, and/or members of the Executive Management Team.
- Federal and/or State mandates.
- Risk assessments, which include consideration of:
 - Prior audit history or lack thereof.
 - Existing internal control systems.
 - Complexity of operations.
 - Significant changes in operations or organizational structure.
 - Technological advances or challenges.
 - Regulation levels (highly regulated vs. unregulated activities).
 - Cash handling volume and number of locations.
 - Impact of potential findings.
 - Activities most commonly susceptible to fraud.

Alternatives

Alternatives to the proposed Audit Plan may be suggested by the City Manager or any member of the City Council. If this occurs, and the Council is in agreement as to the changes, the Audit Plan will be revised to incorporate this additional direction.

Coordinated With

Audit, Finance and Enterprise Committee

Our Mission: *The City Auditor's office provides audit, consulting, and investigative services to identify and minimize risks, maximize efficiencies, improve internal controls and strengthen accountability to Mesa's citizens.*

Audit Planning Process:

The Audit Plan is a Council-approved document which outlines the planned activities of the City Auditor's office for the year. It is developed based on a combination of key risk factors, as well as direction provided by the City Council and City Manager. Changes in scope or complexity of individual audits, or other unforeseen circumstances, may impact our ability to complete all work on the plan. Factors considered when selecting areas to audit may include:

- Requests and/or Suggestions received from the City Council or City Manager
- Statutory mandates and/or regulation levels (highly regulated vs. unregulated activities)
- Prior audit history or lack thereof
- Complexity of operations or significant changes in operations or organizational structure
- Technological advances or challenges
- Cash handling volume and number of locations
- Impact & likelihood of potential adverse events (risk management/control failures)
- Activities commonly susceptible to fraud

FY 2016/2017 Audits

Audit Subject

Contract Monitoring:

- Arts & Culture
- Community Services/CDBG
- Human Resources/Employee Benefits
- Parks, Recreation & Community Facilities
- Transportation

Initial Objectives

This year, the City Auditor plans to focus audit resources on the processes used by a variety of City departments to manage and monitor contracts. The primary objective of these audits will be to determine whether adequate monitoring processes are in place to effectively ensure that the vendors comply with contract terms, that the City receives what it pays for, and that other contract-related risks are appropriately mitigated.

Development Services-Construction Permits

To determine whether effective controls are in place to ensure that applicable fees and charges are accurately calculated and collected.

Police Department – Supplies & Equipment

Evaluate internal controls and processes related to storage, inventory and issuance of supplies, equipment and/or other police property.

Additional Audits (if resources are available)

Financial Services & Engineering – Fixed Assets and Construction Work in Progress (CWIP)

To determine whether effective controls are in place to ensure that: 1) Fixed Asset records are accurate and complete; and 2) CWIP assets are placed in service in a timely manner upon completion.

Mesa Arts Center (MAC)

To determine whether effective internal controls are in place to ensure that revenues are collected, accurately recorded, and safeguarded from loss.

FY 2015/2016 Carryover (In Progress or in Reporting Phase as of 6/30/2016)

- Communications – Procurement & Inventory Management
- Engineering – Light Rail Project Reimbursements Follow-up Review
- Housing & Community Development – Rehab Program
- Financial Services – Payroll
- Police – Off Duty Employment Program Follow-up Review
- PRCF – Red Mountain Multigenerational Center
- Water Resources – Asset Management

Follow-up Reviews Due in FY 2016/2017

- City Attorney – Property & Public Liability Claims
- Human Resources/Safety Services – Workers Compensation Claims
- ITD – Procurement & Inventory Management Processes
- MFMD – Fire Prevention Division (2nd Follow-up)
- Police Department – Off Duty Program (2nd Follow-up)

The objective of each follow-up review is to verify that corrective action(s) agreed to in response to the audit were: 1) Implemented as agreed; and 2) Effective in resolving the related audit finding(s).

Other Activities

Citywide Cash Audits	Unannounced audits of cash handling sites citywide are conducted throughout the year.
Payment Card Industry Data Security Standards (PCI DSS) Review	Annual review of credit card acceptance sites for compliance with PCI DSS.
Fraud & Ethics Hotline Investigations	Monitor the City's Fraud & Ethics Hotline and conduct investigations as needed.
Consulting Services	Provide independent consulting/advisory services; data collection, validation and/or analysis; internal control reviews; risk analyses; financial statement reviews; etc. as needed.
Unscheduled Audits	As directed by the City Council or City Manager, conduct unscheduled audits, which may arise due to unforeseen circumstances.