

SCOTTSDALE CITY COUNCIL REPORT

To: The Honorable Mayor and City Council
From: Cheryl Barcala, City Auditor
Meeting Date: October 15, 2001

ITEM IN BRIEF**Action:**

REVIEW AND APPROVE THE ANNUAL AUDIT PLAN FOR THE OFFICE OF THE CITY AUDITOR, FISCAL YEAR 2001/2002

Purpose:

Review and approval of an annual Audit Plan provides the City Council with an opportunity to direct the audit areas and timing of audit work undertaken by the Office of the City Auditor.

Key Considerations:

The proposed Audit Plan was developed with consideration given to requests by management, areas of concern noted during other audit work, potential risk to the organization, and staff available to complete the work. As well, audit areas were added to address concerns noted by the Citizen Budget Review Committee

The proposed Audit Plan consists of twenty audits (fourteen general, one follow-up, and five Information Systems-related). Of the fourteen general audits, three were requested by City management, one addresses a purchasing-related function, and the remaining nine were included in response to areas of concern identified in prior audits, potential risk to the organization, and questions raised by the Council and the Citizen Budget Review Committee. The five Information Systems audits were selected based on risk to the organization and staff available to complete the work.

Of the fifteen Non-Information Systems audits:

- Two deal with potential revenue issues.
- Nine encompass a review of controls related to certain types of expenditures.
- Two encompass compliance with state and local laws and regulations.
- One addresses control over City assets.
- One addresses the internal control structure of the organization.

The proposed audits cover a wide range of City functions and include:

- One audit of the Development Services Division and the collection of revenue (Controls Over the Collection of Permit Fees).
- One audit related to the collection of revenue at the Scottsdale Stadium (Audit of the Contract with the Stadium Concessionaire).
- Two audits related to the City's benefit program (Audits of the City Funded Insurance Plans and the Tuition Reimbursement Program).
- One audit of the City's Risk Management Division (Audit of Risk Management and the Operation of the City's Self-Funded Insurance Program).

Action Taken _____

- Six audits related to citywide expenditures (Controls of the Use of Cellular Phones, Funds Placed in the Telephone Clearing Account, Business Meeting Expenditures, Long Distance Phone Use, Citywide Overtime, and the follow-up related to Travel Expenditures).
- One audit of a purchasing function (Use of Other Jurisdiction Contracts for the Purchase of Goods and Services).
- One audit related to citywide compliance with a state requirement (Compliance with State Records Retention Requirements).
- One audit is structured to look at the internal control environment (Organizational Ethics and Training).
- One audit is related to citywide controls over fixed assets (Asset Management).

Several issues were considered in setting the audit schedule priorities. Due to potential revenue issues, the management request for an audit of the collection of permit fees was given first priority. The remaining audits were prioritized based on potential risk and staffing considerations. Finally, the audit of Controls Over the Use of Overtime was scheduled as the last project to allow enough time for the new citywide policy governing overtime to become incorporated into practice.

The goal of the Office of City Auditor is to complete, at a minimum, one audit per month for the remaining nine months of the current fiscal year. However, the nature of each audit may impact the timing for completion. Some projects may take longer than 30 days and some may be completed in a shorter time frame. As well, timing may be impacted by staffing and other requests. Quarterly status reports will be provided to the Audit Committee.

Staff Contact:

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DISCUSSION

Background/History:

Scottsdale City Code Section 2-120 provides that, at least annually, the City Auditor shall submit an Audit Plan to the Audit Committee for review and recommendation and the City Council for review and approval.

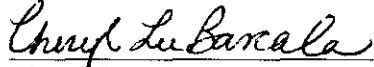
On May 15, 2001, the City Council approved the Mayor's appointment of three Council members to the Audit Committee. The first Audit Committee meeting was held May 21, 2001 at which time a draft Audit Plan was presented and discussed. A second meeting was held September 11, 2001 to review the proposed audit areas and the timing of work. After discussion, the Audit Committee voted to recommend the proposed annual plan to the City Council for review and approval.

The proposed Audit Plan has also been discussed with the City Manager, and a copy has been provided to the City Treasurer/Financial Services General Manager.

Options and Alternatives:

Prior to the approval of this Plan, the City Council can direct the addition or deletion of any proposed audit. As well, the Council can elect to modify the timing and scope of any proposed project.

Additionally, once Council approves an Audit Plan it can be amended at any time during the remaining fiscal year after review by the Audit Committee. As well, the City Council can direct the City Auditor to initiate and conduct any other audit deemed necessary.



Cheryl Barcala
Cheryl Barcala
City Auditor

Attachments: Fiscal Year 2001/2002 Proposed Audit Plan

Office of the City Auditor

Proposed Audit Plan Fiscal Year 2001/2002 (In priority order)

- 1) **Controls Over the Collection of Permit Fees**
This is a management request to determine whether or not controls are sufficient to ensure that all appropriate permit fees are collected when a permit is issued.
- 2) **Audit of the Contract with Arizona Support Services**
This is a management request to audit the concessionaire contract at the Scottsdale Stadium. The contract expires in April but has an extension provision.
- 3) **City Compliance with State Records Retention Requirements**
ARS 41-1346 requires the head of each local agency to establish and maintain an active, continuing program for the economical and efficient management of public records. An audit of the City's Record Retention Program has not been conducted in the past 10 years.
- 4) **City Funded Insurance Plans**
City Ordinance 14-102 requires that City contributions towards group insurance plans for health, life and long-term disability be determined by City Council. Contributions, historically, have been determined by City staff and the lump sum cost of the programs is approved by Council as part of the budget process. No prior audits of this program.
- 5) **Controls Over the Use of Cellular Phones and City Funded Internet Connections/Remote Access Connections**
No prior audits have been conducted regarding the acquisition of cellular phones, the rates paid, appropriateness of usage or the funds provided for at-home Internet connections/remote access lines.
- 6) **Use of Other Jurisdiction Contracts for the Purchase of Goods and Services**
The City's Procurement Code provides that the Director of Purchasing may enter into contracts for the procurement of materials and services pursuant to specifications, solicitations, or contracts issued by other Arizona governmental entities. Such purchases shall be made pursuant to established rules. There have been no audits of this process to ensure that procurements handled through this process adhere to the intent of the Procurement Code.
- 7) **Risk Management**
Other than through the inclusion of expenditures as part of the City's annual external audit, there has been no independent audit of the expenditures paid from the City's self-funded risk fund.

- 8) **Controls Over the Use of Funds Placed in the City's Telephone Clearing Account**
Desktop phones are funded by a charge per line, which is included as a monthly charge to each cost center assigned a phone(s). Funds obtained from this monthly charge are placed in a "Telephone Clearing Account" which is used to fund the cost of providing the service. There have been no prior audits over the use of these funds.
- 9) **Asset Management**
In 1996 our office initiated an audit of the controls over real property owned by the City and concluded that an audit could not be completed. Management has informed us that recommendations from the 1996 audit have been completed, and they are requesting an audit to determine the adequacy of the controls. As part of this audit, we would include a review of non-real estate assets.
- 10) **Tuition Reimbursement**
The City offers a tuition reimbursement program to promote continuous learning and provide financial assistance for courses that will benefit both the City and its employees. No prior audits of this program have been completed.
- 11) **Business Meeting Expenses**
The City has an Administrative Guideline (AG) for use of City funds for business meetings. This AG instructs City employees to reflect the cost of these expenditures in an expenditure account "Business Training and Conferences." No prior audits of expenditures related to business meetings.
- 12) **Long Distance Phone Use**
Audit of controls over the use of long distance to ensure that there is adequate oversight over the expenditure of City funds.
- 13) **Organizational Ethics and Training**
Audit of the City's Ethics Program and related training.
- 14) **Controls Over the Use of Overtime**
This audit was added as the last item, not as a reflection of the priority, but as a reflection of the desired timing in which to complete the audit. City management adopted a new overtime guideline effective 6/1/2000 in response to Council's concerns over the expenditure of City funds. Our intent is to audit compliance with this policy and the performance expectations presented to Council as part of the 2001/2002 budget, prior to the adoption of the 2002/2003 budget. In order to accomplish this objective, however, we need to wait a period of time to allow the new policy to become incorporated into practice.

Follow-up Audits

- 1) **Follow-up on Recommendations from Travel Audit**
The new policy on Travel Expenditures will have been in effect for a year in September. Our intent would be to follow up on the status of recommendations.

Information Systems Audits

1) **General Controls Review**

The last citywide General Controls Review was conducted prior to the move to the client/server environment. There has been a limited review of controls as it relates to the financial systems as part of certain external audits. However, this review ignores evaluation of other high-risk systems such as the Police and Water Resources computer systems.

2) **Anti-Virus Audit**

The audit would be designed to look at the controls in place to secure City computers and networks from the risks associated with computer viruses, worms, and other vulnerabilities.

3) **Controls Over the Use of the Computer Replacement Fund**

The City has an established replacement program with funding available to replace the City owned computers and network. This audit would look at the replacement strategy, the calculation of replacement costs, and the use of funds set aside for this purpose.

4) **Security Controls and Penetration Audit**

Due to the dramatic changes in technology, professional standards recommend a review of security controls and a penetration test at least every eighteen months to two years. This would be the cycle that would correspond to a two-year review window.

5) **Help Desk Function**

This audit would evaluate the help desk function to ensure that sufficient controls are in place to monitor the activities associated with providing support to the City's computers and networks.