



# Audit Committee Meeting Agenda

Thursday, April 25, 2024

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CITY HALL - SONORAN ROOM | 11465 W. CIVIC CENTER DR. | AVONDALE, 85323

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## REGULAR MEETING

**2:00 PM**

*Physical Access to the conference room will be available 30 minutes prior to the meeting.*

### CALL TO ORDER

#### 1. Roll Call

#### 2. Introductions

#### 3. Approval of Audit Committee Minutes

The Audit Committee will consider approval of the December 6, 2023 minutes. The Audit Committee will take appropriate action.

#### 4. Integrity Line Update

The City Auditor will provide an update on the Integrity Line. This item is for discussion only. No action is required at this time.

#### 5. Status of Prior Audit Recommendations

The City Auditor will present the status of prior audit recommendations. This item is for discussion only. No action is required at this time.

#### 6. Audit Status Report and Report Discussion

The City Auditor will present an overview of completed projects. A status report will be presented for all projects currently in progress. This item is for discussion only. No action is required at this time.

#### 7. Citywide Risk Assessment and Approval of FY24/25 Audit Plan

The City Auditor will provide a presentation on the Citywide Risk Assessment and the Annual Audit Plan. The Audit Committee will consider a request to recommend approval of the proposed Annual Audit Plan for the fiscal year 2024/25. The Audit Committee will take appropriate action.

## **8. Audit Foundation/Sustainability Focus**

The City Auditor will discuss a plan that incorporates the approved change of priorities to focus on foundational documents and internal processes. This plan includes a strategic plan, strengths, weaknesses, opportunities, and threats (SWOT) analysis, a communication plan, and projects to create a sustainable foundation for the Office of the City Auditor. The Audit Committee will take appropriate action.

## **9. External Auditor Discussion**

The external auditors from HeinfeldMeech will present the status on the Annual Consolidated Financial Report, the Single Audit Report and other related audits in progress. This item is for discussion only. No action is required at this time

## **10. Calendar**

A proposed 2024 Audit Committee calendar will be presented. The Audit Committee will take appropriate action.

## **11. Adjournment**

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Members will attend by telephone conference call. Individuals with special accessibility needs, including sight or hearing impaired, large print, or interpreter, should contact the City Clerk at 623-333-1200 or TDD 623-333-0010 at least two business days prior to the meeting.

Los miembros asistirán vía teleconferencia. Personas con necesidades especiales de accesibilidad, incluyendo personas con impedimentos de vista u oído, o con necesidad de impresión grande o intérprete, deben comunicarse con la Secretaria de la Ciudad at 623-333-1200 o TDD 623-333-0010 cuando menos dos días hábiles antes de la junta del Concejo.

**MINUTES OF THE AVONDALE AUDIT COMMITTEE**  
CITY OF AVONDALE, ARIZONA  
SONORAN CONFERENCE ROOM  
December 06, 2023

A **Regular Meeting** of the Audit Committee of the City of Avondale, Arizona was convened at 11465 West Civic Center Drive in open and public session at 12:07 p.m.

**Voting Members Present:** Chair White; Committee Member Nielson; Committee Member Solorio; Committee Member Cook; Committee Member Pacheco.

**Non-Voting Members Present:** Committee Member Corbin and Committee Member Weatherless.

**Members Absent:** None.

**Other Municipal Officials Present:** Nicholle Harris, City Attorney; Barbara Copping, City Auditor; Maggie Lam, Accounting Manager; Marcella Carrillo, City Clerk; and Emily Soria, City Clerk Specialist.

**Other Officials Present:** Brittany Williams, Engagement Partner; and Jared Young, Audit Manager.

**Audience:** No members of the public were present.

**1. ROLL CALL BY THE CITY CLERK**

**2. INTRODUCTIONS**

Chair White noted previous Vice-Chair McGee resigned from the committee.

**3. APPROVAL OF AUDIT COMMITTEE VICE CHAIR**

Committee Member Nielson moved to appoint Committee Member Aaron Cook as the Vice Chair; Committee Member Pacheco seconded the motion.

Upon vote, the motion was carried unanimously 5 to 0.

Chair White	Aye
Committee Member Nielson	Aye
Committee Member Solorio	Aye
Committee Member Cook	Aye
Committee Member Pacheco	Aye
Committee Member Corbin	Non-Voting Member
Committee Member Weatherless	Non-Voting Member

#### 4. APPROVAL OF AUDIT COMMITTEE MINUTES

Committee Member Solorio moved to approve the September 28, 2023 and October 23, 2023 minutes; Committee Member Pacheco seconded the motion.

Upon vote, the motion was carried unanimously 5 to 0.

Chair White	Aye
Committee Member Nielson	Aye
Committee Member Solorio	Aye
Vice-Chair Cook	Aye
Committee Member Pacheco	Aye
Committee Member Corbin	Non-Voting Member
Committee Member Weatherless	Non-Voting Member

#### 5. EXTERNAL AUDITOR DISCUSSION

External auditors from HeinfeldMeech presented the status on the Annual Consolidated Financial Report, the Single Audit Report and other related audits in progress. Milestones and the importance of each audit were also discussed. This item was for discussion only.

Brittney Williams, Engagement Partner with HeinfeldMeech, provided an overview of the external audit currently in progress. The audit testwork, ACFR, Alamar CFD report, and CFR, which has a requested one-month extension, must be completed. The presentation included a review of the required auditing compliance standards and related information that guides the audits.

This is HeinfeldMeech's second year working with the City of Avondale and ACFR compilation, which has shown efficiencies from the prior year. The "higher risks" program requires Federal CARES money to be tested, such as the remaining expenditure of the COVID-19 funds. New federal funds may be allocated through the Infrastructure Investment and Jobs Act (IIJA) that can be utilized for transportation, bandwidth, roads, etc. The City does not qualify for GASB No. 94, but a lot of time was put into gathering information for the SBITA (Subscription-Based Information Technology Arrangements) reported under GASB No. 96.

There is a finding over financial reporting again this year, but there are improvements from the prior year. The severity of the errors is determined at the end of the audit and will be further discussed upon completion. With the use of IDEA software everything is tested during the audit, including revenues, receivables, payables, expenditures, federal funds, capital assets, internal control testwork, and data analytics.

In response to questions from Committee Member Nielson, Ms. Williams stated all audits generally include the noted test areas. Data provided by the accounting department is input into the auditing software. The fiscal year runs from July 1 – June 30.

An overview of the audit deliverables was provided, noting there are many moving parts, and these are reports that are issued every year. All audit communication will be emailed to those charged with governance, including disagreements with management or material audit adjustments.

In response to Committee Member questions, Ms. Williams stated ARPA funds were audited under the Coronavirus SLFRF. The anticipated IJJA funds are not ARPA or COVID-19 related, but they will be high risks and require an audit during the 2024 audit. Information shared during the meeting can be uploaded to the website. Mr. Young explained the IJJA funds typically have an environment assessment and compliance requirements and can be utilized for anything that gets something to another location, such as roads, broadband, electricity, etc. An audit update will be provided at the meeting in April 2024.

## **6. INTEGRITY LINE TRANSFER**

The City Attorney presented the recent City Council action that moved the Integrity Line to the City Auditor.

Nicholle Harris, City Attorney, provided an overview of the Integrity Line, that City Council approved as a Chapter in the City of Avondale Policies and Procedures in May 2022. This utilizes a third-party agency, Answer Now, Inc, for employees to report noncompliance issues, fraud, abuse of power, conflict of interests, theft, waste, etc. It should not be used to report emergencies, public safety concerns, or personnel matters. Reports can be made 24 hours a day, seven days per week, using the phone or an online form. The steps taken upon receipt of a report include a panel review, investigation, and possible action. During fiscal year 2023, 13 reports were made related to personnel matters, which were handled through the Human Resources Department. Recent changes to the Integrity Line include adding the City Manager to the review panel, reference to the City Auditor throughout the Chapter, and moving responsibilities to the City Auditor's office.

In response to Chair White's question, Ms. Harris noted the language can be amended for the online submission to direct personnel complaints through a different channel. A discussion ensued about employees feeling comfortable submitting personnel issues this way, all reports are public record, Human Resources' open-door policy, and how incidents are reported to the committee.

## **7. AUDIT STATUS REPORT AND REPORT DISCUSSION**

The City Auditor presented an overview of completed projects. A status report was presented for all projects currently in progress. This item was for discussion only.

Barbara Coppage, City Auditor, noted the auditing department is also using the IDEA data analytic software and following the government auditing standards.

An update on that contract procurement status was provided, noting the Telestaff Audit, Pension Calculation Audit, ADP Calculations Management Request, and Audit Software

(called Teammate) Procurement is complete. The Munis Audit procurement is nearly complete. A detailed status update was provided for current projects including percentage complete and estimated completion date.

In response to questions, a discussion ensued related to Telestaff and ADP capturing overtime for fire department employees. Currently, the auditing department only has one employee and although a request has been made for additional staff, the City is in a deficit and having to make difficult decisions.

## **8. AUDIT FOUNDATION/SUSTAINABILITY FOCUS**

The City Auditor discussed a plan that incorporates the approved change of priorities to focus on foundational documents and internal processes. This plan included a program charter, a strengths, weaknesses, opportunities, and threats (SWOT) analysis, and a timeline with milestones.

Barbara Coppage, City Auditor, presented and discussed a proposed sustainability plan for the Audit Department as a follow-up to questions from the last meeting. Information such as citywide risk categories not including department-specific risks, audit process, and adopted ordinances were included to keep documents together. A key focus of this plan is the strengths, weaknesses, opportunities, and threats (SWOT).

Chair White stated the proposed SWOT will be an action item for the January meeting with feedback provided to Ms. Coppage.

## **9. CALENDAR**

A proposed 2024 Audit Committee calendar was presented.

- Thursday, January 25, 2024 - 2:00 p.m. to 3:30 p.m.
- Thursday, April 25, 2024 - 2:00 p.m. to 3:30 p.m.
- Thursday, July 25, 2024 - 2:00 p.m. to 3:30 p.m.
- Thursday, October 24, 2024 - 2:00 p.m. to 3:30 p.m.

Subsequent Audit Committee meetings will take place in accordance with the approved 2024 calendar.

Committee Member Nielson moved to approve the January 25, 2023 and April 25, 2023 Audit Committee Meeting dates; Committee Member Cook seconded the motion.

Upon vote, the motion was carried unanimously 5 to 0.

Chair White	Aye
Committee Member Nielson	Aye

Committee Member Solorio	Aye
Committee Member Cook	Aye
Committee Member Pacheco	Aye
Committee Member Corbin	Non-Voting Member
Committee Member Weatherless	Non-Voting Member

## 10. ADJOURNMENT

There being no further business before the Committee, Committee Member Pacheco moved to adjourn the regular meeting; Committee Member Solorio seconded the motion.

Upon vote, the motion was carried unanimously 5 to 0.

Chair White	Aye
Committee Member Nielson	Aye
Committee Member Solorio	Aye
Committee Member Cook	Aye
Committee Member Pacheco	Aye
Committee Member Corbin	Non-Voting Member
Committee Member Weatherless	Non-Voting Member

Meeting adjourned at 1:32 p.m.

# INTERNAL AUDIT REPORT

## ASRS PENSION CALCULATIONS AND CONTRIBUTIONS

Human Resources Department | Finance and Budget Department

February 1<sup>st</sup>, 2024

# Avondale

City Auditor's Office

*Barbara Coppage*

11465 W CIVIC CENTER DR., #250 | AVONDALE, AZ 85323 | (623) 333-2048

Report Prepared by: Barbara Coppage, City Auditor, MPA, CIA, CQA

## ASRS CONTRIBUTIONS AND CALCULATIONS AUDIT

Date: February 12, 2024 | Project Number: 1202404

### PURPOSE OF THIS AUDIT

The purpose of this audit is to determine if the City complied with Arizona State Retirement System (ASRS) requirements for calculating eligible wages and reporting and submitting employer and employee contributions.

### WHY THIS AUDIT IS IMPORTANT

The City and employees contributed over \$8 million to ASRS during fiscal year 2023. The City is required to comply with ASRS requirements set forth in Title 38 of the Arizona Revised Statutes and Title 2, Chapter 8 of the Arizona Administrative Code.

### CONCLUSIONS

- Internal controls were not designed to ensure all eligible employees were assigned to a pension plan. The audit identified one eligible employee that was not assigned to a pension plan as required.
- At least 30 noncompliance instances were identified where an employees' ASRS membership dates did not coincide with their City hire date as required or as allowed under certain circumstances.
- ASRS contribution amounts were incorrectly calculated for two employees because the calculation did not include the employer paid deferred compensation payments. As a result, employee and employer contributions were underpaid.
- Some paycodes within the payroll software used were active but no longer used, interchangeably used as pensionable/non-pensionable, or inconsistently used.

### SUMMARIZED RECOMMENDATIONS

- Enhance written standard operating procedures to include independent reviews of key pension data to ensure initial employee pension setup is accurate.
- Resolve noncompliance where ASRS membership dates do not coincide with hire dates as required and where contributions were under collected for two employees.
- Review existing paycodes with the governance committee and deactivate paycodes no longer used, assign each paycode as pensionable or non-pensionable (not interchangeable) and validate calculations when new paycodes are added or edits are made.

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## BACKGROUND

There were approximately 450 ASRS employee members identified during our audit. This audit focused on the key internal control processes and compliance with ASRS requirements.

The Human Resources Department (HR) is responsible for entering new employee pension data into the payroll system, also known as the Automatic Data Processing software (ADP). HR enters the employees' ASRS membership date, hire date, payroll codes into ADP. HR also categories employees into position codes (i.e. temporary, intern, part-time employee, etc.).

The Finance and Budget Department (Finance), including the Payroll and Accounting divisions, are responsible for ensuring the accuracy of payroll and recording employer pension contribution amounts in the City's accounting system, also known as Enterprise Resource Program or ERP. Finance is also responsible for deducting employee contributions from employee salaries and remitting both employee and employer contributions to ASRS.

The Information Technology Department (IT) is responsible for supporting ADP.

## OBSERVATION 1: OVERALL PENSION MEMBERSHIP

*Internal controls were not designed to ensure all eligible employees were assigned to a pension plan.*

While this audit is specific to ASRS, Auditor's initial steps included a review of all employees to provide a reasonable assurance that all employees with ASRS memberships or potential memberships were identified.

Key Internal Control   Testing Results
<ul style="list-style-type: none"><li>• HR supervisory reviews were performed for new hires on an individual basis. These reviews were not designed to prevent incorrect or missing retirement data from being entered in ADP. HR did not complete overall compliance reviews designed to identify if all eligible employees were assigned to a pension plan within ADP.</li><li>• The audit identified one employee that was eligible for a separate pension plan designated for public safety officials but was not assigned to a pension plan in ADP as required.</li></ul>



## AUDITOR RECOMMENDATIONS | MANAGEMENT'S RESPONSE

1.1 HR to enhance written standard operating procedures to, at a minimum, address the following as it relates to pension data:

- Supervisory reviews required for new hires and position changes
- Comparison of employee hire date to pension enrollment date
- Verification of pension Group or Tier assignment
- Verification of ADP codes entered to match the assigned Group or Tier
- Verification of the pension contribution percentage assigned
- Required documentation of supervisory reviews
- Required systematic reviews of all active employees and assigned pension

*Management's Response:*

*HR will enhance written standard operating procedures to address the areas of concern outlined in the audit recommendation. Target date is 5/8/2024.*

1.2 HR to enroll the eligible employee identified in this audit in the public safety pension plan and document enrollment in ADP and ensure all contributions are properly calculated and remitted, as necessary.



*Management's Response:*

*The affected employee was enrolled into Public Safety Personnel Retirement System (PSPRS) with an effective date of 4/23/2023 based on eligibility. The City of Avondale remitted payment for missed employee and employer contributions to PSPRS on 1/31/2024.*

## OBSERVATION 2: ASRS PENSION MEMBERSHIP

*Supporting documentation was not provided to validate compliance with the ASRS pension membership date requirements.*

Auditor Observation	Key Internal Control   Results
Documentation was not provided to validate compliance when employee hire date did not coincide with their ASRS membership date.	<ul style="list-style-type: none"><li>• HR's limited internal controls regarding supervisor verification of submitted pension data are identified in Observation 1.</li><li>• At least 30 employees have hire dates that did not coincide with their ASRS membership date. Staff was not able to provide documentation to justify why these dates were not the same. All 30 exceptions related to employees with hire dates before 2008.</li></ul>


The following were also tested with no exceptions identified.

- All employees hired between 2021 and 2023 made pension contributions at the time membership was established. This audit test is important to verify that ASRS membership is not established without corresponding contributions.
- Part-time employees' whose number of hours worked made them eligible employees to be enrolled in ASRS were properly identified and enrolled. Historically, part-time employees comprised only a small portion of the City's workforce. However, the number of part-time employees is expected to significantly increase in the coming year with the hiring of approximately 70 part-time staff for the new Aquatic Center.

## RECOMMENDATIONS | MANAGEMENT'S RESPONSE

- 2.1 HR review employees with ASRS membership dates that do not coincide with their hire dates to ensure compliance with ASRS membership requirements. Document compliance and take appropriate action.

*Management's Response: Follow up with ASRS is in process to see if ASRS can provide plausible reasons as to why differences may exist between an employee's membership date and hire date. If no explanation is found, guidance will be sought by ASRS on how to address/correct the discrepancies that have been identified. HR will pull a comprehensive report of all employees who have differing dates to ensure any corrections or explanations are made for all affected employees, based on guidance from ASRS. Target date is 5/8/2024.*



2.2 HR establish a centralized monitoring process that ensures compliance with the ASRS 20/20 rule for part-time employees.

*Management's Response: Efforts are currently underway between IT and HR to develop a reliable and recurring report to track the ASRS 20/20 rule. As part of this process, a comprehensive review of current employee data will be initiated to ensure the appropriate group of employees is identified for 20/20 reporting purposes. Once finalized a standard operating procedure will be developed. Target date is 5/8/2024.*

### OBSERVATION 3: ASRS ELIGIBLE WAGES AND CONTRIBUTIONS

*Based on the payroll reviewed, ASRS contribution amounts were accurately calculated. However, one paycode was not accurately coded in payroll system which caused two employees to under contribute the required amount.*

Auditor Observation	Results
<p>Internal processes used to setup paycodes were formalized and required approval of a governance committee during this audit.</p> <p>Paycodes within ADP remain active although no longer used. Some paycodes are interchangeably used as pensionable and non pensionable. At least one paycode was not properly coded within ADP.</p>	<ul style="list-style-type: none"> <li>• HR and Finance coordinated efforts to setup new paycodes in ADP. The process was not formalized in writing or approved by a governance committee.</li> <li>• Auditor performed a high-level review of paycodes in ADP and noted the following:               <ul style="list-style-type: none"> <li>○ Approximately 140 paycodes were in ADP. At least 34 paycodes were no longer used but remained active in ADP.</li> <li>○ One paycode (employer paid deferred compensation) was not included in an ASRS eligible wage calculation as required.</li> <li>○ Two paycodes (vacation and comp-time sellback) could be both pensionable and not pensionable depending on if the sellback is considered mandatory or voluntary. This creates ambiguity when using these paycodes.</li> <li>○ One paycode (named RPX) was used for paying employees retroactively. No exceptions were identified; however, the practice of using a single paycode to record multiple pay types could inadvertently result in a miscalculation of eligible wages.</li> </ul> </li> </ul>
<p>HR internal controls were not designed to ensure the correct contribution percentage was used for employees hired after the new fiscal year.</p>	<ul style="list-style-type: none"> <li>• HR performed supervisory reviews as stated in Observation 1. These reviews were not designed to ensure the proper contribution percentage was used for employees hired after a new fiscal year.</li> <li>• Based on the July 10, 2023 payroll, Payroll identified two employees whose contribution percentage was based on the prior fiscal year instead of the current fiscal year. This required the employees to be refunded in the next payroll.</li> </ul>

<p>ASRS employee and employer contribution amounts did not comply with ASRS requirements for two employees.</p>	<ul style="list-style-type: none"> <li>Based on auditor testing of one payroll period, the formula to calculate eligible wages in ADP did not include the paycode of employer paid deferred compensation payments. This resulted in an underpayment of employee and employer contributions.</li> </ul>
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The following was also tested with no exceptions identified.

- ASRS contribution percentages were observed to be properly uploaded for existing employees and applied at the beginning of each fiscal year as required. Five payroll periods covering FY22, FY23, and FY24 were tested.
- Alternative Contribution Requirement payments, which applies to employees who have previously retired under ASRS but have returned to work, were calculated correctly per ASRS requirements.

*Update:* During this audit, Finance formalized their process to setup new paycodes in ADP by using a standard form that included key information and approvals.

**RECOMMENDATIONS | MANAGEMENT’S RESPONSE**

3.1 Finance to inactivate payroll codes no longer used within ADP.


*Management’s Response:* Finance will review all codes for frequency of use and work through the payroll governance committee to get the old codes inactivated. Target date is 6/30/2024.

3.2 Finance to review all existing paycodes to determine if each should be included in eligible wages for each group within ASRS. Validate the accuracy of the eligible wage formula within ADP for the paycodes not included in this audit.

*Management’s Response:* Finance will finalize our paycode validation table and verify all pension eligible codes are configured correctly in ADP. Target date is 3/28/2024.

3.3 HR to calculate contribution amounts underpaid by the two employees due to the deferred compensation payments that were not included in eligible wages and take appropriate action. Document action taken.

*Management’s Response:* Contributions Not Withheld (CNW) calculations were completed by HR and communicated to affected employees. HR forwarded the information to ASRS who is responsible for validating outstanding employee and employer contribution amounts owed to ASRS and invoicing the affected employees and the City for payment. Completed on 1/17/2024.



3.4 Finance to record pension contributions in Munis (refer to #3.2) as appropriate and remit contributions to ASRS as required.

*Management's Response: Finance will record contributions in Munis and remit contributions to ASRS for the current fiscal year and await to be invoiced directly from ASRS for contributions related to prior fiscal years. Target date is 4/30/24.*

3.5 Finance to finalize necessary corrections to ensure employer-paid deferred compensation is properly identified as eligible wages for ASRS purposes.

*Management's Response: The necessary corrections to include employer-paid deferred compensation as ASRS eligible wages were already implemented in ADP. Date completed is 1/25/2024.*

## OBSERVATION 4: ASRS CONTRIBUTIONS, RECORDKEEPING, AND PAYMENTS

*Internal controls ensure that ASRS contributions reported in ADP are recorded in Munis and are transferred to ASRS as required.*

Auditor Observation	Results
Finance was using an outdated ADP pension contribution report that created an inefficient process and that increased the risk for error.	<ul style="list-style-type: none"><li>• Finance consistently used an ADP pension contribution report that did not reflect the correct contributions made by employees. Finance noted the errors each payroll and instead of notifying IT requesting the report to be corrected, Finance performed at least 76 manual adjustments each payday.</li></ul>

The following was also tested with no exceptions identified.

- ASRS employee and employer contribution amounts were remitted and received within 14 calendar days as required.
- The contribution amounts reported in ADP matched the amounts reported in Munis for the sample payday based on the payroll selected for review.

*Update: Auditor observed in January 2024 that IT updated the ADP pension contribution report to reflect the correct pension contribution amounts and Finance no longer made manual adjustments to address this issue.*

## RECOMMENDATIONS | MANAGEMENT'S RESPONSE

None.

## OBSERVATION 5: PRIOR YEAR CONSULTANT RECOMMENDATIONS

*Most prior year consultant recommendations were adequately addressed during the course of this audit.*

HR and Finance procured consulting services from an outside firm during 2022. The consulting report included a review of payroll processes and recommended areas for improvement. Audit reviewed the recommendations that related to the purpose of this audit to determine if related recommendations were implemented.

Description	Technology	Process	Policy	Implemented?
There is no integration used between ADP and Munis resulting in GL loads for Payroll being created from ADP and loaded into Munis for financials.	X			Partially implemented – ADP mapping has been provided but the process is not automated and requires manual entry.
There is no governance structure in place to request or follow up on ADP and eTime support.			X	Implemented – Finance and HR created a template to be completed for all new payroll codes.
The City lacks an executive leadership team to prioritize ADP and eTime issues.		X		Implemented – Finance and HR implemented a process where the management team meets to discuss and document ADP processes.
Pay codes are not inactivated in ADP	X			Open – See recommendation #3.1 of this report.
No visibility to payroll mapping of pay codes and deductions in ADP	X			Implemented – ADP provided Finance with a payroll mapping of paycodes and deductions in ADP.
Several ADP reports do not always function properly	X			Implemented – Finance addressed this issue in #4.1 of this report.

## **APPENDIX A – SCOPE AND METHODS**

### **SCOPE**

Pay period 6/13/22 – 6/26/22, Pay date 06/30/22 – limited testing

Pay period 06/27/22 – 7/10/22, Pay date 07/14/22 – limited testing

Pay period 07/11/22 – 07/24/22, Pay date 7/28/22 – limited testing

Pay period 7/10/23 – 7/23/23, Pay date 07/27/23 – limited testing

Pay period 10/2/23 – 10/15/23, Pay date 10/19/23 - detailed testing

### **METHODS USED**

- Interviewed Finance and Budget, Human Resources, and Information Technology department staff.
- Obtained and analyzed payroll rosters and payroll data from Finance and Budget.
- Reviewed ASRS transactions recorded in Munis.
- Reviewed Arizona State Retirement System Employer Manual 2022 and related guidance.
- Reviewed payroll backup documentation and approvals for selected transactions.
- Verified analysis results provided by Specialist.
- Recalculated eligible wages and contribution percentages.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

### **SPECIALIST USED**

Data specialist was used to assist auditor with analyzing data and recalculations. Auditor verified results, reviewed documentation, and discussed results with departments.

### **AUDIT STANDARDS**

We conducted this performance audit in accordance with generally accepted government auditing standards with the exception of an independent peer review. The auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

TO: Max White Audit Committee Chair  
Aaron Cook, Audit Committee Vice Chair  
Audit Committee Members

FROM: Barbara Copping, City Auditor

DATE: April 16, 2024

RE: CITY OF AVONDALE CITYWIDE RISK ASSESSMENT AND PROPOSED  
FY25 AUDIT PLAN

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### **Purpose**

This memo discusses the City's risk environment and how the City Auditor prioritizes audit resources.

### **Background**

Risk is defined as the possibility of an event occurring that will impact the achievement of an organization's objectives. The City Auditor assesses Citywide risks on a continuous basis and reports this assessment to the Audit Committee annually. The results of this assessment are presented in terms of proposed audits.

### **Methods Used to Create the Citywide Risk Assessment**

The City Auditor analyzes financial data, reviews prior audit results, reviews the implementation status of prior audit recommendations, and conducts research on risk areas that may be specific to government. The City Auditor obtains feedback from City management.

### **Citywide Risk Assessment Results | Audit Plan**

All 18 City departments were included in the assessment of risk. A separate risk assessment was performed for the Information Technology Department ("IT") in FY23 by an external auditing firm. The risks identified are incorporated within the proposed audit plan. The audit plan includes audits that will be completed by external and internal resources and serves as a workplan for the City Auditor.

### **Risk Management is Everyone's Responsibility**

The Institute of Internal Auditors describes three lines of defense that should exist within every organization, each with a different role to play. The *first line of defense* is City Management who assesses risk, implements controls, and monitors processes. The *second line of defense* comes from departments that typically provide oversight in their specialty area. The *third line of defense* is provided by internal audits, external audits, and regulatory agencies who conduct audits and provide independent feedback.

## Proposed Audit Plan for FY 2025

Audit Title	Preliminary Scope
<b>Finance and Budget   Public Works – Water Billing and Collections</b>	To determine whether management has complied with state, city, and established policies and procedures.
<b>Information Technology – Active Directory</b>	The scope of the audit will be based on the projects identified in the IT Risk Assessment or as other risks are identified.
<b>Human Resources   Finance and Budget – Payroll Timekeeping Follow-up</b>	To determine whether prior recommendations are implemented in accordance with management’s action plan and established procedures are effective in resolving the underlying prior condition.
<b>Human Resources – Pension Calculations and Contributions</b>	To determine whether public safety pension calculations and contributions are adequately calculated, reported and recorded.
<b>Public Works – Fleet Management</b>	To determine whether fleet management processes are in compliance with City policies and applicable laws and regulations.
<b>Status of Audit Recommendations</b>	Review, assess, and report on the status of management’s corrective actions taken in response to prior audit recommendations.
<b>Citywide – TBD</b>	Other Services Upon Request / Auditor Discretion. Scope to be determined.
<b>Citywide Risk Assessment</b>	Perform the annual Citywide risk assessment and develop the annual audit plan for the upcoming year.
<b>Integrity Line Administration</b>	Perform Integrity Line administrative tasks and periodically update the Audit Committee.



# Strategic Plan

Fiscal Years 2024 – 2027

Barbara Coppage

City Auditor

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## 1. Overview

### **Purpose of the Strategic Plan**

The purpose of this Strategic Plan is to set overall goals for the Office of the City Auditor and to develop a plan for the City Auditor (CA) to achieve them.

The Strategic Plan articulates a comprehensive and forward-looking roadmap that aligns the CA with the overall strategic objectives of the City. By defining the strategic direction, priorities, and resource requirements, this Strategic Plan aims to enhance the auditor's effectiveness, responsiveness, and agility in addressing emerging risks and evolving business needs. Through the Strategic Plan, the CA seeks to strengthen its role as a trusted advisor to management, fostering a culture of continuous improvement and accountability while contributing to the overall success and resilience of the City.

### **Alignment with the City Strategic Plan**

The CA supports the City Council's strategic outcome areas by conducting audits that promote operational efficiency, effectiveness, accountability, and integrity in City operations.

The CA also aligns with the strategic outcome area of Innovative Program and Service Delivery.

### **Avondale 7 Strategic Outcome Areas**

- Innovative Program and Service Delivery
- Public Health and Safety
- Natural Resources and Open Spaces
- Community-Orientated and Lifelong Learning Opportunities
- Connected Community
- Creative and Sustainable Community Development
- Diverse Recreation and Entertainment Opportunities

## 2. Mission / Values

### **Mission Statement**

To conduct audits that promote operational efficiency, effectiveness, accountability, and integrity in City operations.

### **Purpose**

The purpose of the CA is to provide independent and objective assurances on City programs and activities to City Management and Council. Services are designed to add value, improve organizational operations, identify opportunities to minimize organizational risks, maximize efficiency and effectiveness, and strengthen public confidence and accountability.

### **Values**

**Integrity** – The CA will uphold the highest standards of honesty and ethical behavior in all activities. The CA commits to transparency, fairness, and accountability to foster public trust in audit work.

**Objectivity** – The CA will approach responsibilities with impartiality, ensuring that assessments and recommendations are based on facts and unbiased analysis. The CA will provide independent and objective insights to support effective decision-making.

**Professionalism** – The CA will seek opportunities to enhance skills and stay informed about emerging trends, technologies, and best practices in the field of internal auditing.

**Collaboration** – The CA will foster a collaborative environment, working closely with other city departments and stakeholders to share insights, best practices, and information. Partnerships enhance the overall effectiveness of governance, risk management, and control processes.

**Continuous improvement** – The CA will commit to ongoing learning and improvement.

**Respect** – The CA will treat all individuals with dignity, courtesy, and respect.

**Community focus** – The CA strives to contribute positively to the city's success by promoting efficiency, effectiveness, and ethical behavior in the use of public resources. These values reflect a commitment to ethical conduct, professionalism, collaboration, and a focus on community well-being that aligns with the unique context of a small city.

### 3. Authority

The Office of the City Auditor is established under Ordinance No. 2045-0722 as a separate department of the city. The Office of the City Auditor shall consist of the CA and as many staff members as may be deemed necessary by the CA and as may be approved by the Council through the budget process. The CA is appointed by the City Council and shall serve at the pleasure of the Council. The CA will report administratively to the Council and functionally to the Audit Committee. The CA will organize and administer the Office of the City Auditor to operate without management interference and shall be provided with free and open access (except where limited by law) to all records, personnel, facilities, systems and information to carry out these duties.

## 4. Strengths, Weaknesses, Opportunities, and Threats (SWOT)

### Strengths

- Strong Council support and relations with City Manager / City Attorney
- Independence and objectivity
- Requisite experience and contacts
- Provides a variety of types of engagements and services
- Built foundation of documented processes and procedures
- Able to engage external audit resources

### Weakness

- Single person department with limited resources
- No enterprise risk management structure in place
- Limited history of audits
- Limited time to develop specialized skills and innovative processes
- Limited time to complete audit software integrated modules
- Audit manual is under revision as a result of the new audit software

### Opportunities

- Third-party certification to enhance accountability and transparency
- New program to customize to the needs of Avondale
- New audit software to help ensure consistency and compliance with standards
- Newer data analytic software to test and analyze entire data populations
- Network of resources to continue improvement
- Implementing new audit software to automate some processes

### Threats

- Citywide revenue projections could impact the Office of the City Auditor's budget
- Lack of awareness of the value of internal audits
- Staffing and talent acquisition
- Complexity of operations
- Data accessibility and integration

## 5. Action Plans

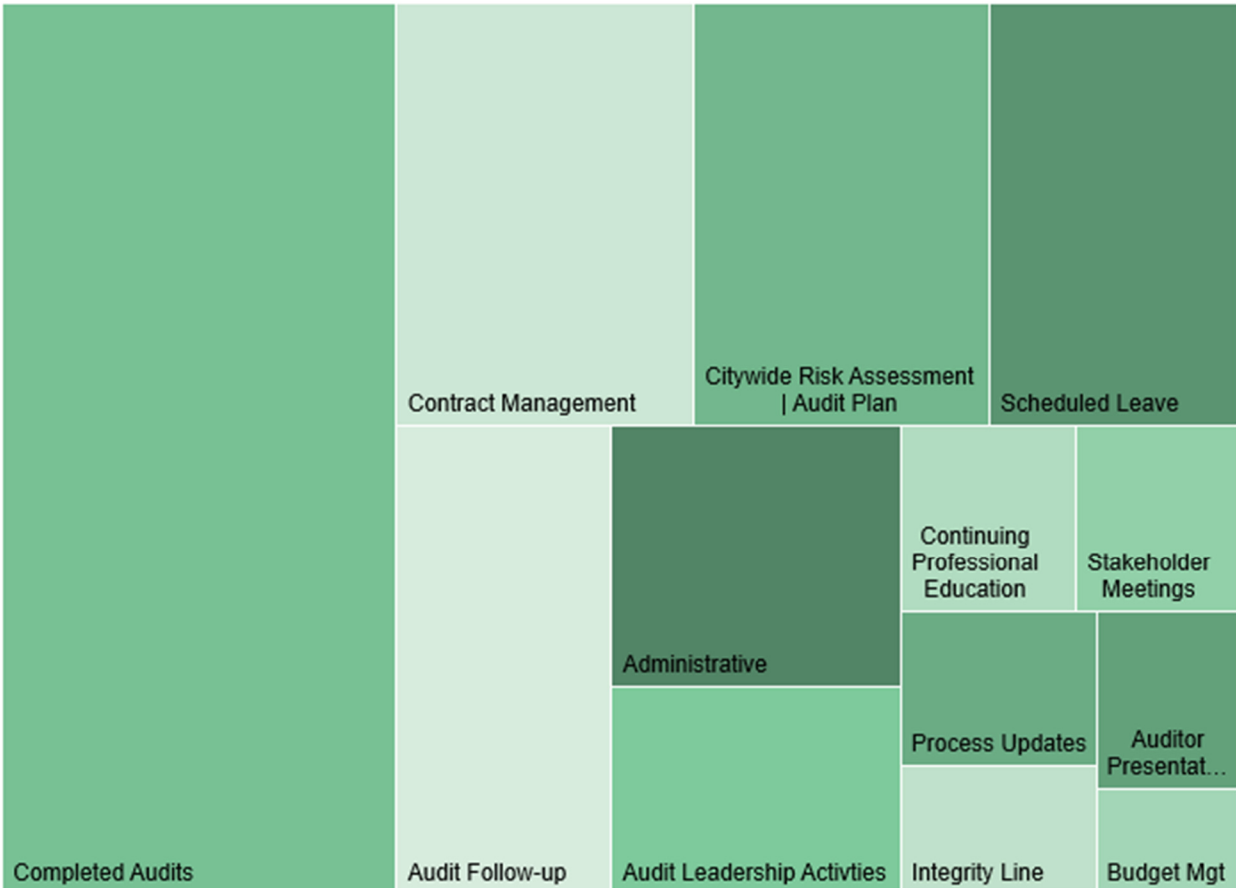
The *Annual Activities* chart below shows activities typically performed each year. The frequency shows how often each activity is at a minimum.

### Annual Activities

TASK	FREQUENCY
Audit Follow-Up	Ongoing
Contract Management	Ongoing
Integrity Line Administration	Ongoing
Continuing Professional Education	Ongoing
Budget Management	Monthly
Stakeholder Communication	Monthly
Audit Committee Meetings	Quarterly
Audit Leadership Activities	Quarterly
Completed Audits	Quarterly
Citywide Risk Assessment   Audit Plan	Annually
Audit Industry Updates	Annually
Auditor Presentations	Annually
Auditor Evaluation	Annually

The *Time Allocated Annual Activities* chart below shows an approximate percentage of time each annual activity takes. Percentage of time is indicated by the size of the box.

## Time Allocated Annual Activities



The following charts relate to completed projects and anticipated future projects that contribute to the foundation of Office of the City Auditor.

## Foundation Projects Completed in FY24

TASK	PROGRESS	FISCAL YEAR
Audit Software Procurement	100%	FY24
Audit Software Implementation	100%	FY24
Standard City Auditor Evaluation Template	100%	FY24
Integrity Line New Website   Marketing	100%	FY24
New City Auditor Website	100%	FY24
City Auditor Presentations	100%	FY24
Audit Report Template (not automated)	100%	FY24

## Foundation Projects for Future Years

TASK	PROGRESS	START	END
<b>Audit Software Schedule</b>			
Citywide Risk Assessment Template	30%	FY24	
Data Analytic Tool Implemented	0%	FY24	
Dashboard Configuration Phase 1	0%	FY25	
SOP with Software Guides Phase 1	0%	FY25	
Audit Report Template	0%	FY26	
<b>Other Audit Activities</b>			
Audit Manual Revisions	0%	FY25	
City Auditor Report of Activities	0%	FY25	

## 6. Key Performance Indicators

The CA uses a balanced scorecard as part of the strategic planning framework to assign priorities and to communicate goals. The scorecard enables the Audit Committee and City Council to monitor and measure the success of the CA strategies to determine how well each objective is performed. The balanced scorecard measures success in four areas.



### **Financial**

Goal: 100%

- Percent of audits completed on the Annual Audit Plan, as amended.

### **Business Process**

Goal 80%

- Percent of audits completed on the approved/amended Annual Audit Plan.

### **Customer**

Goal: 80% agree or strongly agree

- Percent that agree or strongly agree that audits provide a benefit to the organization by providing clear objectives, conclusions, and recommendations.

### **Innovation**

Goal: One method each year

- Identify and incorporate one method each year that aims at streamlining and/or automating business processes to assist with the delivery of audits.

## 7. Communication Plan

The following charts show the information, frequency, and format the CA uses to communicate to the Audit Committee, City Council, and the City Manager.

2024	AUDIT COMMITTEE			
	Quarterly	Semi-Annual	Annually	Format Used
Citywide Risk Assessment			X	Agenda
Proposed Annual Audit Plan			X	Agenda
Annual Audit Plan Progress	X			Agenda
Audit Report Discussion	X			Agenda   Audit Report
Auditor's Strategic Plan			X	Agenda
Integrity Line Update		X		Agenda
Follow-up to Prior Audit Recommendations		X		Agenda   Annual Report
Auditor's Annual Report			X	Report
Charter Blueprint Updates		X		Agenda
Urgent Matters				As Appropriate

# 2024

## CITY COUNCIL

Description	Monthly	Quarterly	Annual	Format Used
City Auditor Updates	X			Email
Citywide Risk Assessment			X	Council Agenda
Proposed Annual Audit Plan			X	Council Agenda
Audit Reports		X		Written Report
Integrity Line Update				As Appropriate
Follow-up to Prior Audit Recommendations			X	Written Report
Individual Meeting with City Council Members			X	In-person or Online   As needed
City Auditor Evaluation			X	Executive Session (June)
Urgent Matters				As Appropriate

# 2024

## CITY MANAGER

Description	Monthly	Semi-Annual	Format Used
City Auditor Updates	X		In-Person
Discussion of Risk	X		In-Person
Audit Reports	X		In-Person
Integrity Line Update	X		In-Person
Follow-up to Prior Audit Recommendations		X	In-Person
Urgent Matters			As Appropriate

## 8. Maintenance Plan

The CA will review this Strategic Plan annually at the end of each calendar year. Suggested revisions will be presented to the Audit Committee.

## Appendix 1 – Citywide Risk Categories

The CA assesses risk on a citywide basis through the Annual Audit Plan. Department specific risks are also reviewed when an audit is opened. Risk is also measured in terms of likelihood and magnitude.

**Strategic Risk** – Operations would be unlikely to achieve its mission, goals, and objectives if the risk occurred.

**Reputational Risk** – Major loss of credibility and/or public support. Also includes potential major negative publicity. For support departments, it is the major loss of credibility from other departments.

**Operational Risk** – Recent significant change or expected significant change that has impacted or will impact most areas of operation.

**Complexity Risk** – Non-routine, complex, processes that involve a significant amount of judgement, experience, or knowledge are difficult to understand and verify.

**Control Maturity** – Internal controls (processes or procedures) that are fragmented, informal, ad hoc, or generally managed in silos.

**Health and Safety** – Risk of injury, safety, security, or health is likely if established policies and procedures are not clearly communicated or followed.

**Cross Departmental** – Process is heavily dependent on another department to complete a process or transaction.

## Appendix 2 – Standard Audit Process Steps

The CA understands that the prospect of an audit can sometimes be unsettling to City departments. But the audit process does not have to be confusing. The CA strives to make its audit process as transparent and understandable as possible. Below you will find a general description of how an audit is conducted.

### Audit Steps

1. **Audit Selection** - The CA assesses citywide risks and identifies potential audits to be presented in the Annual Audit Plan, which is presented to the Audit Committee and City Council for approval. Audit requests by management are conducted at the discretion of the CA.
2. **Background Survey** - The CA familiarizes themselves with the department or program being audited. During this process, research is conducted on similar audits, significant risks, potential problems, existing policies and procedures, best practices, or benchmarks to gauge performance.
3. **Entrance Conference** - The CA meets with the auditee to review the purpose and scope of the audit.
4. **Fieldwork** - The CA reviews policies and processes. Management and staff are interviewed. Audit tests are designed to ensure reasonable assurance that internal controls are functioning properly. Audit work is documented and are the basis for the conclusions reached in the audit report.
5. **Exit Conference** - The CA informally meets with the auditee to confirm the factual accuracy of the auditor's observations and to address any related concerns.
6. **Report Writing** - The core of the report will be the auditor's findings, which are problem areas or opportunities to improve performance. Each finding has recommendations for action to correct the problem or improve operations.
7. **Closing Conference** - The CA meets with management to discuss the written draft audit report. The auditee has two weeks to draft a response to each of the recommendations made. Each response states concurrence/non concurrence with the recommendation, a corrective action plan, and a target date of completion. If management disagrees with a recommendation, they are asked to propose an alternative solution to the problem identified so a workable solution can be achieved.
8. **Final Audit Report Release** - The CA issues the final audit report to the City Manager. The Audit Committee and City Council are sent final audit reports prior to each Audit Committee meeting. After each Audit Committee meeting, the final reports are posted to the CA website.
9. **Audit Follow-Up** - The CA follows-up on open audit recommendations and reports the status to the Audit Committee.

# **City of Avondale**

## **Audit Results**

### **Year Ended June 30, 2023**

## **Audit Plan**

### **Year Ended June 30, 2024**

Presented by Brittney Williams, CPA, CGFM and Jared J. Young, CPA, CGFM  
Engagement Partner and Engagement Manager  
April 25, 2024



# Key Personnel

## Brittney Williams – Engagement Partner

- Former member of the AICPA Governmental Audit Quality Center Executive Committee
- Current member of the AICPA Professional Practice Technical Issues Committee
- Designated Audit Quality Partner for the Governmental Sector for the Firm
- 20 years experience dedicated to the audit profession, has managed over 280 audits
- Actively involved in standard setting for audit and reporting
- Regular presenter for the AICPA, ASCPA, GFOAz, AGA and other organizations
- AICPA Certified Peer Review Team Capitan

## Jared Young – Audit Manager

- Supervisory team member on over 160 audits
- 9 years of experience, speaker at numerous firm and external trainings
- Holds the AICPA's Advanced Single Audit Certificate
- Performs reviews for the ASBO's ACFR Certificate of Excellence program

# Standards to Guide the Audit

- AICPA Statements on Auditing Standards (SAS)
  - General Audit Standards
  - Working paper documentation
  - Risk assessments
- OMB Uniform Guidance 2 CFR 200 (UG)
  - Federal Compliance Audit
- Governmental Accounting Standards Board (GASB)
  - Financial Reporting
- Government Auditing Standards (GAS)
  - Auditing Standards particular to governmental entities
  - Independence standards and requirements

# Independent Auditor's Report



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## Independent Auditor's Report

Honorable Mayor and Members of the City Council  
City of Avondale, Arizona

### Report on Audit of Financial Statements

#### *Opinions*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Avondale, Arizona (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the budgetary comparison statements for the General, Dedicated Sales Tax Revenue, Public Safety Sales Tax Revenues and Grants In Aid Funds, of the City of Avondale, Arizona, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of City of Avondale, Arizona, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Change in Accounting Principle*

As described in Note 1, the City implemented the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB Statement No. 99, *Omnibus 2022*, for the year ended June 30, 2023, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

# Audit related reports issued

- Audit communication to those charged with governance – Sent 1/30/24
- Annual Comprehensive Financial Report – Issued 1/29/24
- Alamar CFD Report – Issued 1/30/24
- HURF Report– Issued 1/24/24
- Single Audit Reporting Package – Issued 1/29/24
- Annual Expenditure Limitation Report– Issued 2/27/24
- Bi-Annual Impact Fees AUP Report – Issued 3/26/24

# Single Audit Reporting Package

- Includes many different elements
  - Report on internal control for audit under *Government Auditing Standards*
  - Report on internal control and compliance for federal awards as required by the Uniform Guidance
  - Schedule of Expenditures of Federal Awards (SEFA)
  - Major federal programs tested and any findings noted
  - Prior year finding follow up

# Synopsis

- Financial statements
  - Clean Opinion
  - One finding – significant deficiency
- Federal Awards
  - Clean Opinion on compliance for Major Federal Programs
  - No Findings
- Major Federal Programs Tested
  - CSLFRF

## Summary of Auditor's Results:

### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: Yes
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

### Federal Awards

Internal control over major programs:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: No

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee: Yes

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: Yes

Findings and Questioned Costs Related to Federal Awards: No

Summary Schedule of Prior Audit Findings required to be reported: Yes

# FY 24 Annual Audit – items to consider

- Federal dollars coming to City
  - Through CRRSSA, American Rescue Act and IIJA– will result in more focus from audit team
  - Concept of “higher risk” programs continues
- Updated auditing standards for risk assessments
- GASB pronouncements
  - GASB 100 (Changes and Error Corrections) – Effective for FY 24 Audit
  - GASB 101 (Compensated Absences) – Effective for FY25 audit
    - Neither are expected to have large impact on the City’s financials

# FY 24 Annual Audit

## Preliminary discussions with City staff to discuss

- Federal programs for planning
- Major changes from FY23 – new lease, SBITAs, or other contractual agreements
- Finding follow up – cash reconciliation and accounting records
- Remote Munis access has been granted to aid in planning and overall audit completion

## Federal single audit testwork

- Will be completed during Summer 2024
- Coronavirus State and Local Fiscal Recovery Fund and possibly CDBG

## Preliminary fieldwork scheduled for week of June 24<sup>th</sup>

Final fieldwork will occur in chunks through out October – targeted testwork as City completes functional areas

# Higher Risk Programs from 2023 CS

Agency	Assistance Listing (CFDA) Number	Title
Education*	84.425	Education Stabilization Fund
HHS*	93.498	Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
HHS**	93.778/93.777/93.775	Medicaid Cluster
Treasury*	21.023	Emergency Rental Assistance
Treasury*	21.026	Homeowner Assistance Fund
Treasury*	21.027	Coronavirus State and Local Fiscal Recovery Funds
Treasury*	21.029	Coronavirus Capital Projects Fund
Interior **	15.252	Abandoned Mine Land Reclamation (AMLR)
Social Security	96.001/96.006	Disability Insurance/Supplemental Security Income

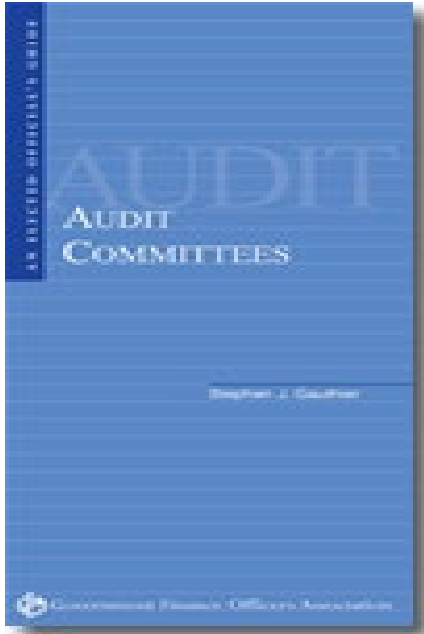
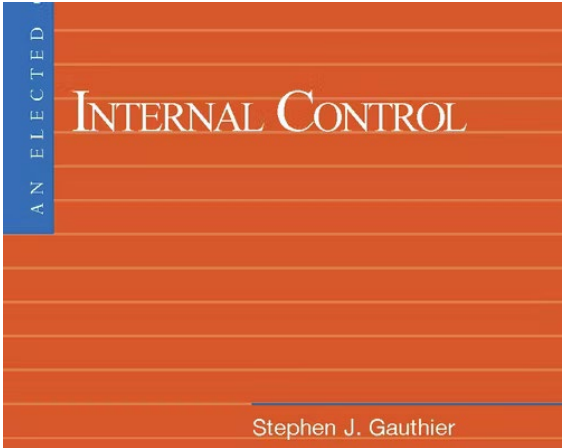
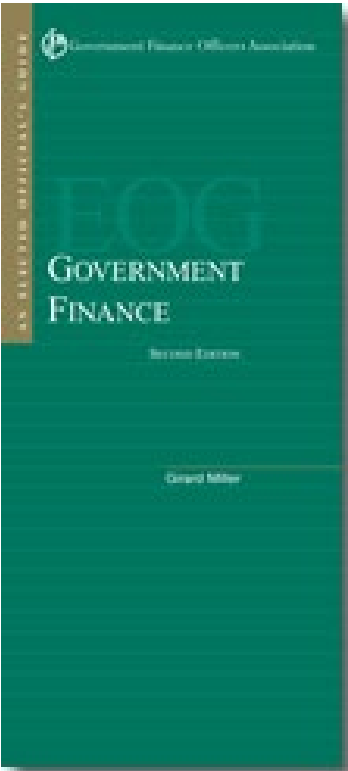
*Note:*

\* These programs were created by one of the laws cited at the beginning of this section and are thus considered 100% COVID-19 funding.

\*\* These programs were existing programs that received additional COVID-19 funding from one or more of the laws cited at the beginning of this section or IIJA funding.

# Resources - <https://www.gfoa.org/eog>

## GFOA's Elected Officials Series



# Resources for elected officials

- <https://www.gfoa.org/materials/topic/accounting-and-financial-reporting>
  - Best practice pamphlets
  - E-books
  - Articles
  - On demand podcast discussions
  - Informative resources for those charged with governance

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Heinfeld, Meech & Co., P.C. is a Certified Public Accounting firm that specializes in governmental and nonprofit accounting, auditing and consulting.

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We strive to be an effective resource to our clients on a year-round basis. This dedication includes regularly publishing articles on topics related to governmental and nonprofit accounting. We also regularly offer trainings and conferences on current and upcoming issues faced by these industries.

Recognized as experts in the field, we are frequently asked by many national and local industry organizations to share our expertise at their sponsored conferences and workshops. These include recent events sponsored by the American Institute of Certified Public Accountants (AICPA), Association of School Business Officials (ASBO), Arizona Society of CPAs, Government Finance Officers Association (GFOA), Association of Government Accountants (AGA), Native American Grant School Association (NAGSA), and many state societies.



# Questions?

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