



AUDIT COMMITTEE MINUTES

DATE: July 31, 2019

LOCATION: CITY HALL FOURTH FLOOR CONFERENCE ROOM

TIME: 4:00 PM

I. CALL TO ORDER – Chairman

The meeting was called to order by Joyce Norris at 4:02pm.

II. ANNOUNCE MEMBERS IN ATTENDANCE (VERIFY QUORUM)

Audit Committee Members Present: Joyce Norris, Jeff Henley, Jerry Weatherspoon,
Peter Reyman

Audit Committee Members Absent: Lynn Stokes

Quorum Verified: Yes

Internal Audit Attendees: Rod Wright, Stephanie Fox, Cassie Wheeler

Other Attendees: None

III. ADOPTION OF MINUTES

April 24, 2019 Audit Committee Meeting

Joyce Norris asked the Audit Committee members to review the minutes and called for a motion for approval of the minutes. Jeff Henley made a motion to accept the minutes and Peter Reyman seconded. The minutes were approved as presented.

II. DEPARTMENT REPORT

A. Budget Report

i. FY 2019 Budget

Rod presented the final FY 2019 budget, which included all expenditures related to that fiscal year. Funds were still available at year end in the Accounting and Auditing Services line of the budget. This is normal and would cover any special projects or increases in the cost of interim work performed by the external audit firm.

ii. FY 2020 Budget YTD Report

Rod presented the FY 2020 year to date budget. There was an increase in the Accounting and Auditing Services line, which would be used for the IT co-sourcing work that we anticipate will be completed by KraftCPAs. Rod pointed out that the budget also included a \$15,000 charge out for each of the utilities related to anticipated IT co-sourcing projects.

B. Update on Internal Audit Activity

- i. Audit Schedule Status
- ii. Audit Metrics Year-End

Audit schedule status and metrics were discussed concurrently.

Rod gave status updates on the FY 2019 audit plan, as follows:

- IT Org Structure Audit - This project will be changed to more of a consulting type engagement, which will incorporate the work performed by KraftCPAs during the fiscal year.
- Ethics Audit - We met with the Mayor, Chief of Staff, Legal Department, and CDE General Manager to finalize the corrective action plans. We anticipate releasing the audit report in the week following the audit committee meeting.
- Golf Course Inventory and Cash Handling Audit - Testing is wrapping up, and we will be drafting the report. We will discuss issues further in executive session.
- E-Verify/I-9 Audit - We will be asking for approval to carry this audit forward into the FY 2020 audit plan.
- Fire Department Overtime and Staffing Audit - The committee previously approved a postponement of this audit due to a new Fire Chief being hired. We do not anticipate that this audit will be placed on the audit schedule until FY 2021.
- Payroll Audit - We have had meetings with management to discuss initial findings, but we still need to meet with both Finance and HR to finalize action plans to address these issues. The Mayor announced to employees during the budget process that 26 pay periods will be implemented in the following year, which will include a payroll lag.

Rod also discussed the audit metrics results and plans for the upcoming year:

- The Evidence Room Audit, which was completed during the fiscal year, was completed at about 75% of budgeted hours.
- In the upcoming year, we will be focusing on getting projects done while finalizing our updated policies and procedures, as well as our risk assessment process. These updates are part of the department infrastructure related to the red book standards transition. Due to balancing the necessary red book updates with completing projects, we anticipate that the metrics for the year may not be met; however, we think the metrics will be attainable once the red book standards are fully implemented.

iii. IT Co-sourcing Update

KraftCPAs have given Rod a verbal report and will be sending a written report in the coming weeks. While there are issues that need to be addressed, there were no alarming findings. Rod will forward the written report to the committee when received.

iv. Internal Control Meetings

Internal control meetings with each department are ongoing. These are owned by Finance, but at least one person from the Internal Audit department attends each one. During the meetings, we discuss the risks associated with the specific departments, as well as control activities meant to address those risks. The meetings are beneficial for interacting with departments outside the audit process, keeping up to date with issues in the departments, and sometimes resulting in facilitating process improvements.

Stephanie described a recent situation where we were able to facilitate communication between departments to improve the monthly purchasing card process.

v. Policy Updates to Begin October Meeting

As discussed with audit metrics, these are updates to our internal policies and procedures related to red book standards compliance. Rod explained that these would begin coming to the committee for approval in October, with final approval anticipated in January.

vi. 2020/2021 Audit Committee Members

Rod asked if anyone had spoken with anyone interested in being an audit committee member. Two new members are needed, as Joyce and Jerry are both rolling off the committee at the end of the calendar year. The committee discussed potential candidates and Rod indicated he would contact them to determine whether they are interested.

vii. Wins

Rod discussed the wins for the department for the period, including the purchasing card process, Stephanie completing the final section of the CIA exam, and being asked to review the fleet policy by management.

Rod explained that the purchasing card win is an example of the type of projects we want to help departments with more in the coming year. In the future, we will be grouping these types of projects into consulting engagements, which will also allow us to categorize these as productive time even though they are not related to an audit. The committee agreed that these services should be considered productive time rather than administrative.

Rod proposed that we host a community outreach event as part of internal audit awareness month in May. The event would be a fraud awareness and prevention lunch or breakfast presentation for non-profits and small businesses in town. We will likely ask the Chamber to sponsor refreshments for the event. Rod has spoken previously with the Mayor about this, and he is supportive of the idea.

We also intend to work with HR to give a brief presentation during new hire orientation and supervisor training about what internal audit does and the fraud hotline.

Other topics of discussion included the City's wellness initiatives and Cassie's pursuit of the Certified Government Financial Manager (CGFM) designation.

III. NEW BUSINESS

A. Audit Metrics Revisions

Rod explained that he originally added this to the agenda with the intention of revising the metrics; however, we have decided to leave the metrics as is until we have fully implemented red book standards.

IV. COMMITTEE ACTION REQUIRED

A. FY 2020 Audit Plan Approval

Rod presented the FY 2020 audit plan, which includes audits, hotline investigations, consulting engagements, and prior audit follow ups. Carryover audits listed in the audit plan are the Payroll, I-9, and Golf Course audits.

The audit plan also includes the following new audits/projects:

- Senior Management Expense Audit - This audit will be for calendar year 2018, and be focused on the Mayor's office and Legislative department. Following completion of this audit, the next senior management expense audit will happen during 2021 and cover calendar years 2019-2020.
- Ethics Survey - The red book requires that we do some work in the area of ethics each year. We intend to accomplish this in FY 2020 by doing an ethics survey for all employees. The surveys will ask basic questions about the ethical environment of the City.
- CDE/CGW Disconnect Audits - This audit is aligned with the Mayor's strategic focus on customer service. These audits will specifically address disconnects due to non-payment and exclude customers who are moving. Both of these audits are planned for later in the fiscal year due to implementation of new policies and practices in this area at both utilities. We anticipate that both of these audits will carryover into the next fiscal year.
- Vendor Analysis - This is a project we would like to do annually going forward with a new set of data each year, similar to continuous monitoring. We will be analyzing purchasing card and accounts payable data to identify patterns, related party transactions, and other potential issues. During this year's analysis, we will be building a program which can be used as a guide for future reviews of this type.
- Financial Controls - These are assessments of controls for specific processes within the City. Instead of performing a full audit of a particular process, we will work with the department to identify their objectives for the process and then map the key controls related to the objectives. Stephanie explained the many benefits of this project including improved efficiency in audit planning, identification of high risk areas which need audits, and potential future cost savings on the external audit. It also gives some assurance in areas where we do not have the current resources to do full audits. The project will also allow us to identify potential areas for improvement that departments can implement.
- Risk Assessment - This involves building our risk assessment process upon which future audit plans will be based.

Rod also briefly went over the hour breakdown associated with the audit plan, including administrative time.

Joyce called for a motion to approve the FY 2020 audit plan. Jeff made the motion, Jerry seconded. The motion was approved.

V. CITY COUNCIL ACTION REQUIRED

VI. ADJOURNMENT OF PUBLIC MEETING

Joyce requested a motion to adjourn the public meeting and go into executive session. Jeff made the motion, Peter seconded. The public meeting was adjourned at 4:47 PM.

VII. PUBLIC COMMENTS (5 minutes each)

VIII. NEXT MEETING - **October 30, 2019 4:00 PM**

IX. EXECUTIVE SESSION – Vote by the Committee to go into executive session.

At this point in the meeting everyone other than Audit Committee members and those asked to attend by the Audit Committee to address a pending audit issue will be asked to leave.

- A. Ongoing audits and investigations
- B. Hotline reports
- C. Audit plan

X. ADJOURNMENT OF EXECUTIVE SESSION

Jeff made a motion to adjourn executive session. The motion was seconded by Peter. Executive session was adjourned at 5:30 PM.

Stephanie Joy
Stephanie Fox

10/30/19
Date of Committee Approval