

***City of Tucson***  
***Independent Audit and Performance Commission***

**September 16, 2011**

**Subject: Report to Mayor and Council: Commission Activities – January through June 2011**

**Honorable Mayor and Council:**

The attached report provides information on the City's Independent Audit and Performance Commission (IAPC) activities between January 1, 2011 and June 30, 2011. During this period the IAPC prepared the following reports:

- **Commission Comments on City of Tucson's Comprehensive Annual Financial Report for the Year Ending June 30, 2010**  
The IAPC initiated and issued a report to Mayor and Council in March.
- **City of Tucson Contract with Metropolitan Tucson Convention and Visitors Bureau**  
This project was requested by Mayor and Council. There are three segments to this review with reports for each: contract compliance, performance, and comments on Pima County's review of the MTCVB conducted by a contracted consultant. The first report was issued to Mayor and Council in April, the second in June and the third in September.
- **Commission's Comments on Vendor Contract Analysis for Tucson Convention Center Operations**  
This project was requested by the City Manager and a memorandum was issued to the Mayor and Council in April.

The Commission is currently working with the Police Department, at Chief Villasenor's request, to review the cost of false alarms.

One of the Commission's duties is to approve the City's annual Internal Audit Plan. Attached is the Fourth Quarter Update of the plan which includes all audit projects for FY 2011.

While the Commission has yet to make a formal recommendation to you regarding the following, due to the urgency and importance of this matter in a dynamic and evolving environment within the City, it is likely that the Commission will recommend that the Mayor and Council meet directly with the City's external auditor on at least an annual basis, if not twice annually. The first meeting to identify and discuss areas of significant risk prior to the annual audit, and the follow-up meeting to review the findings of that audit. This potential formal recommendation, along with the likelihood of a few other external auditor related recommendations, will be intended to help Mayor and Council more effectively fulfill your governance and fiduciary responsibilities. The Commission continues to stand ready to assist you in these responsibilities.

A report on the period July 2011 through December 2011 will be provided to you by March 2012.

Commission members appreciate the opportunity to provide the Mayor and Council with review of relevant issues. Please contact your appointee to the Commission, or the City Manager, should you have topics you would like the Commission to review. The Commission appreciates the support of City Internal Audit staff members Jane Prior and Dennis Woodrich.

Respectfully Submitted,



Michael McDonald  
IAPC Chair

c: Richard Miranda, City Manager  
Kelly Gottschalk, Assistant City Manager/CFO  
Marie Nemerguth, Budget and Internal Audit Program Director

Attachments:

Report to Mayor and Council: Commission Activities – January through June 2011  
Fiscal Year 2011 Internal Audit Plan Fourth Quarter Update June 30, 2011

**INDEPENDENT AUDIT AND PERFORMANCE COMMISSION  
REPORT ON ACTIONS AND ACTIVITIES  
JANUARY 1, 2011 THROUGH JUNE 30, 2011**

The following is a list of Independent Audit and Performance Commission (IAPC) actions and activities, based on agenda items, from January 1, 2011 through June 30, 2011.

The Commission met 6 times and established a subcommittee which met 7 times.

**Action Taken by the Commission:**

- The Commission provided a report to Mayor and Council in February, regarding Commission activities from July 1, through December 31, 2010.
- The Commission members reviewed the City's Comprehensive Annual Financial Report (CAFR) and provided a report to Mayor and Council in March 2011.
- At the request of the Mayor and Council, the Commission conducted a review of the Metropolitan Tucson Convention and Visitor Bureau (MTCVB). The first of three reports was provided to the Mayor and Council in April 2011. Commission Chair David Cormier presented information to the Mayor and Council at the April 12th Study Session regarding the Commission's first report which focused on MTCVB's and the City's compliance with the City contract.

The second report was issued to the Mayor and Council in June and reviewed MTCVB's performance. Subcommittee Chair Bob Clark and Subcommittee Member Bill Tilden presented information to the Mayor and Council at the July 6th Study Session. In the third and final report the Commission will provide comments to the Mayor and Council on the MTCVB audit completed in June for Pima County by a contracted company. The third report will be issued in September.

- At the request of the City Manager, the Commission conducted a review of the Internal Audit analysis of the use of contracted staff at the Tucson Convention Center. The Commission supported the proposed outsourcing of specified TCC functions based on certain conditions. The Commission's report was provided to the Mayor and Council and the City Manager in April 2011.

**Information Provided to the Commission:**

- Pension Update  
Mike Hermanson, Retirement and Benefits Administrator – January 5, 2011
- Financial Dashboards  
Michael McDonald, Commission Member, and Joyce Garland, Budget Administrator – January 5; February 2; March 2, 2011

- Tucson Convention Center – Review of Internal Audit Analysis of Outsourcing Contract  
Marie Nemerguth, Budget and Internal Audit Office Program Director, Tommy Obermaier, Tucson Convention Center Deputy Director, and Cindy Bezaury, Human Resources Director - April 6, 2011 Update May 4, 2011
- City Comprehensive Financial Policies  
David Cormier, IAPC Chair – April 6, 2011  
Kelly Gottschalk, CFO/Finance Director – May 4, 2011
- Update on FY 2011 Revenues and the FY 2012 Budget  
Kelly Gottschalk, CFO/Finance Director, and Joyce Garland, Budget Administrator – May 4, 2011
- Procurement Construction Policy  
David Cormier, IAPC Chair – May 4, 2011
- City Communication with Employees, the Public, and the Media  
Michael Graham, Public Information Officer – June 21, 2011
- Proposed Internal Audit Plan for FY 2012  
Jane Prior, Internal Audit Manager – June 21, 2011

**FISCAL YEAR 2011 INTERNAL AUDIT PLAN  
FOURTH QUARTER UPDATE  
JUNE 30, 2011**

**PROJECTS**

**Requests for Audit Assistance**

**Fourth Quarter Update:**

- **Update of Tucson Code related to licensing and vaccination of dogs – Completed** in May 2011(requested by Budget and Internal Audit Program Director).
- **ParkWise Revenue Management Audit – Ongoing** since March 2011 (requested by City Manager’s Office).
- **Metropolitan Tucson Convention and Visitors Bureau review – Ongoing** since December 2010. Conducted surveys requested by the Independent Audit and Performance Commission and provided other project related support to the Commission.
- **Citywide review of public records requests – Ongoing** since June 2010 (requested by the City Manager’s Office). This project should be completed in the first quarter of FY 2012.

**Third Quarter Update:**

- **Tucson Convention Center review – Completed** in March 2011 (requested by the City Manager). Analysis of vendor contract.
- **City Attorney’s Office** analysis of documents – **Completed** in February 2011.
- **Budget and Internal Audit Office cost calculation related to HURF – Completed** in March 2011 (requested by Budget).
- **Citywide review of public records request process – Ongoing** since June 2010 (requested by the City Manager’s Office). Note: This project has been delayed due to staff reductions and other assignments.
- **Metropolitan Tucson Convention and Visitors Bureau review – Ongoing** since December 2010. Conducted surveys requested by the Independent Audit and Performance Commission and provided other project related support to the Commission.
- **Update of Tucson Code related to licensing and vaccination of dogs – Ongoing** since February 2011 (requested by Budget and Internal Audit Program Director).

**Second Quarter Update:**

- **Fleet Services review - Completed** in October 2010 (requested by the Independent Audit and Performance Commission).
- **ParkWise payroll audit** (City’s parking authority) - **Completed** in December 2010. Issues and necessary corrective action were stated in the report which was issued to the ParkWise Program Director. A follow-up will be conducted within 6 months.
- **General Services Department review of contract expenditures** for one component – **Completed** in December 2010.
- **Housing and Community Development Department review** of A-133 Single Audit Reports for an outside agency – **Completed** in November 2010.

- **Housing and Community Development Department guidance** on financial monitoring for an outside agency program – **Completed** in November 2010.
- **General Services Department consultation** regarding cost allocation – **Completed** in November 2010. **Note:** Principal Auditor who has been temporarily reassigned continues to assist with cost allocation issues when necessary.
- **Citywide review of public records request process** – **Ongoing** since June 2010 (requested by the City Manager’s Office).
- **Metropolitan Tucson Convention and Visitors Bureau review** – **Ongoing** since December 2010. Preliminary research for review to be conducted by the Independent Audit and Performance Commission.

**First Quarter Update:**

- **Fleet Services review - Ongoing** since June 2010 (requested by the Independent Audit and Performance Commission).
- **Citywide review of public records requests** – **Ongoing** since June 2010 (requested by the City Manager’s Office).
- **Investigation of a wrongful conduct complaint** – **Completed** in August 2010 (requested by the City Manager’s Office, at the recommendation of the City Attorney’s Office).
- **Compilation of timeline for activities related to the Depot Plaza Garage** – **Completed** in July 2010 (requested by Finance Department).
- **Review of a vendor’s overhead rate calculation** – **Completed** in September 2010 (requested by the Procurement Department).
- **Review of contract terms related to a Tucson Convention Center project** – **Completed** in September 2010 (requested by the Procurement Department).
- **Research requirements and feasibility for federal A-87 indirect cost rate proposal** **Completed** in August 2010 (requested by Budget and Internal Audit Office). **Note:** It was determined that the completion of an A-87 indirect cost allocation plan would not be feasible during fiscal year 2011 due to the time required to set up the initial plan and recent Internal Audit staff reductions.

**Goal:** At their request, provide audit assistance to the City Manager’s Office, other City offices and departments, and the Independent Audit and Performance Commission. The type of assistance (consultation, review, audit, cost study, investigation), the amount of time required, and when the assistance is scheduled will vary depending upon the nature of the request.

**Reports:** To be determined based on the type of assistance provided.

**Support for the Independent Audit and Performance Commission (IAPC)**

**Fourth Quarter Update:**

During the fourth quarter, the IAPC conducted three regular meetings and three subcommittee meetings. Internal Audit staff conducted an election for Commission officers and prepared and distributed agendas, agenda materials, meeting minutes, legal action reports, and calendars for these meetings. Internal Audit staff is also responsible for contacting and scheduling presenters and ensuring that any technical support is provided.

**Third Quarter Update:**

During the third quarter, the IAPC conducted three regular meetings and four subcommittee meetings. Internal Audit staff prepared and distributed agendas, agenda materials, meeting minutes, legal action reports, and calendars for these meetings. Internal Audit staff is also responsible for contacting and scheduling presenters and ensuring that any technical support is provided.

**Second Quarter Update:**

During the second quarter, the IAPC conducted two regular meetings and two subcommittee meetings. Internal Audit staff prepared agendas, meeting minutes, legal action reports, and calendars for these meetings. Internal Audit staff is also responsible for contacting and scheduling presenters and ensuring that any technical support is provided. Staff worked closely with the Commission to finalize the Fleet Services Review report.

**First Quarter Update:**

The Office of Budget and Internal Audit staff has been responsible for providing support to the IAPC which has included preparing agendas, meeting minutes, calendars, and other reports. During the first quarter, the IAPC conducted two regular meetings.

**Goal:** Provide staff support to assist the Independent Audit and Performance Commission (IAPC) in carrying out its duties.

**Reports:** Prepare reports as requested by the Commission.

**Collaborative Auditing****Fourth Quarter Update:**

The first and second quarter analysis reports (combined) were issued to the City Manager on April 22, 2011. The Independent Audit and Performance Commission received copies of the report. The third quarter report will not be issued until July due to the staff reduction. Note: Technical assistance to departments continues to be provided by the Principal Auditor who is currently on assignment to the Finance Department.

**Third Quarter Update:**

Due to the reduction in staff (see Second Quarter Update), the first quarter analysis report has not been issued and is being combined with the second quarter report. The report will be finalized as soon as two departments submit their second quarter charts. Staff changes in those two departments required technical guidance from Internal Audit. Although the report has not been issued, charts for other departments have been updated through December and posted on the Collaborative Auditing web site. The third quarter (ending March 31) updates should be completed on time (within two months of the close of the quarter) and the report presented to the Commission at the June 1, 2011 meeting.

**Second Quarter Update:**

The trend analysis report for July through September 2010 is in the process of being finalized.

**Note:** The Principal Auditor who has been in charge of the Collaborative Auditing program has been temporarily reassigned and the Internal Audit Manager has assumed this responsibility. However, he continues to provide guidance during the transition period as well as training for departments, when necessary.

**First Quarter Update:**

The trend analysis report for April through June 2010 was presented to the Commission at their September meeting.

**Goal:** Monitoring and promotion of continuous process improvement. At the request of the City Manager, to identify and resolve operational issues in a timely manner by working with departments to identify, collect, chart, and analyze key performance measures.

**Reports:** Quarterly Analysis Report issued to the City Manager, affected departments, the IAPC, and Mayor and Council. Collaborative Auditing charts are posted on the City's website.

**Note:** Financial Measures will be compiled and updated by the Budget Administrator and reported on a regular basis. Internal Audit and Budget staff will monitor these measures and assist management in the development of strategies for maintaining and improving the City's financial health.

**Downtown Development Projects Audit of Expenditures****Fourth Quarter Update:**

Due to staff reductions, support for IAPC and other projects, the third and fourth quarter reports will be combined. Currently there are six projects. Internal Audit staff conducts the following procedures for these contracts as well as reviewing additional documents for the Modern Streetcar project: review project contracts, purchase orders, amendments and change orders and examine a sample of invoices to determine if project expenditures are appropriate and properly approved for payment and budget capacity.

**Third Quarter Update:**

The July through December 2010 expenditure report was completed and issued. Additional monitoring of the Modern Streetcar project (requested by the City Manager) is in progress.

**Second Quarter Update:**

Internal Audit staff review expenditure information monthly, based on payments made to vendors and the Regional Transportation Authority (RTA). The review for the first quarter of FY 2011 was delayed because records were not available to staff while an audit of Rio Nuevo was being conducted by external auditors. The report will now include July through December 2010 for Rio Nuevo projects and July through November 2010 for the other downtown projects. The report is in the process of being finalized. Additional monitoring of the Modern Streetcar project has been requested by the City Manager and internal audit staff is reviewing information regarding funding as well as expenditures.

**First Quarter Update:**

Internal Audit staff review expenditure information monthly, based on payments made to vendors and the Regional Transportation Authority (RTA). First Quarter Report for July, August and September 2010 expenditures will be issued in early November 2010.

**Goal:** Review expenditure data for downtown development projects to determine if expenditures are appropriate and properly approved.

**Reports:** Reports issued quarterly to the City Manager, IAPC, and Mayor and Council.

### **Risk Assessment**

#### **Fourth Quarter Update:**

Due to staff reductions and support to the IAPC for projects, this project is on hold.

#### **Third Quarter Update:**

Due to staff reductions and support to the IAPC for projects, this project is on hold.

#### **Second Quarter Update:**

Due to staff reductions and support to the IAPC for projects, this project is on hold.

#### **First Quarter Update:**

Staff is preparing the audit program and anticipates beginning this project in October 2010.

**Goal:** As suggested by the City's external auditors, begin a formal risk assessment of City functions. The *International Standards for the Professional Practice of Internal Auditing* defines risk as, "The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood."

The risk assessment will evaluate and document City activities to determine the degree of risk involved with achieving the objectives of that activity. The risk assessment will identify the risks, whether the risk is determined to be low, medium, or high, determine the adequacy of internal controls in place to manage the risk, and include any recommendations and actions that need to be taken to improve internal controls. This review of activities and assessment of risk will assist Internal Audit with determining where to focus audit efforts.

**Reports:** Reports issued to departments with copies to the City Manager and other departments, such as Finance, if necessary.

### **pCard Audits**

#### **Fourth Quarter Update:**

There were no pCard audits this quarter.

#### **Third Quarter Update:**

There were no pCard audits this quarter.

#### **Second Quarter Update:**

A pCard audit of the Parks and Recreation Department's Southwest District was completed in November. The District is in compliance with policies and procedures.

#### **First Quarter Update:**

The Housing and Community Development Department (HCD) pCard audit was completed. HCD is in compliance with established pCard policies and procedures.

**Goal:** Audit usage for compliance with policies and procedures.

**Reports:** Report issued to the Department Director with a copy to the Procurement Director and the Finance Director. The Procurement Department administers the pCard program.

### **Financial Participation Agreements, Master Operating Agreements, and Human Services Plan Contracts**

#### **Fourth Quarter Update:**

There were no audits or reviews for this quarter.

**Third Quarter Update:**

- **Review of the Pima County First Quarter Fiscal Year 2011 Financial Report for animal care services – Ongoing** (Requested by the Budget and Internal Audit Program Director) Based on the results, Audit staff is conducting additional procedures to evaluate the County’s new jurisdiction audit process.

**Second Quarter Update:**

There were no audits or reviews for this quarter.

**First Quarter Update:**

- **Review of the Pima County Third Quarter Fiscal Year 2010 Financial Report for animal care services – Completed** in July 2010 (Requested by the Budget and Internal Audit Program Director) Based on the results of the review, it appears that the County’s financial report reflects the actual animal care activity that occurred within the City’s jurisdiction. The report was issued to Assistant City Manager Sean McBride.

**Goal:** Monitor Financial Participation Agreements, Master Operating Agreements, and Human Services Plan contracts to help ensure compliance with contract terms.

**Reports:** Report issued to the department administering the agreement.

**Audits of Imprest Cash Accounts and New Imprest Cash Accounts (Petty Cash/Change Funds)**

**Fourth Quarter Update:**

At the request of the Tucson Police Department (TPD), conducted an audit of the Special Investigations Section (SIS) imprest account (“flash” fund used to show money to drug dealers but not actually buy the drugs). TPD requests these audits when there is a change in the account custodian who is always a police officer. There were no concerns noted. Note: This audit was conducted by the Senior Auditor who is currently assigned to the Finance Department. This auditor specializes in cash account audits.

**Third Quarter Update:**

There were no audits of imprest accounts or new imprest accounts that required Audit assistance this quarter.

**Second Quarter Update:**

There were no audits of imprest accounts or new imprest accounts that required Audit assistance this quarter.

**First Quarter Update:**

There were no audits of imprest accounts or new imprest accounts that required Audit assistance this quarter.

**Goal:** Audit cash handling to ensure compliance with established policies and procedures and to ensure that cash is properly safeguarded. Instruct employees on the procedures for securing and managing new cash accounts.

**Reports:** A report may be issued to the department audited and/or the Finance Department, depending on the circumstances.