

# DRAFT



**MINUTES  
AUDIT COMMITTEE  
GLENDALE MEDIA CENTER, 3rd  
FLOOR CONFERENCE ROOM  
9494 W. MARYLAND AVE.  
GLENDALE, ARIZONA 85305  
SEPTEMBER 7, 2023  
2:00 P.M.**

**1. CALL TO ORDER**

Councilmember Aldama called the meeting to order at 2:03 p.m.

**2. ROLL CALL**

Present: Jamie Aldama, Councilmember, Chairperson  
Ian Hugh, Councilmember  
Raymond Malnar, Councilmember  
Irene Avalos, Member  
Kevin Phelps, City Manager  
Levi Gibson, Budget & Finance Director

Also Present: Mike Kingery, Independent Internal Audit Program Manager  
Vicki Rios, Assistant City Manager  
James Gruber, Chief Deputy City Attorney  
Jenny Durda, Interim Director, Organizational Performance Office  
Jeff Bratcher, Program Manager, Organizational Performance Office

**3. CITIZEN COMMENTS**

No members of the public were present. No comments.

**4. APPROVAL OF THE MINUTES**

A motion was made by Councilmember Ian Hugh, Seconded by Councilmember Raymond Malnar to approve the minutes of the June 7, 2023 Audit Committee meeting as written.

AYE: Councilmember, Chairperson Jamie Aldama  
Councilmember Ian Hugh

Councilmember Raymond Malnar  
Member Irene Avalos

5. **CONSIDERATION AND POSSIBLE VOTE ON PROPOSED CHANGES TO CITY ADMINISTRATIVE POLICY # 5 AND CITY ORDINANCE O19-43**

Mr. Kingery explained to the committee the reason for the proposed changes to city ordinance O19-43. The changes will make the ordinance verbiage match the actual procedures as performed currently and historically. As amended, the ordinance will have the audit committee assign IIAP staff to perform the annual risk assessment and to forward finalized audit reports to the City Council. As currently written, the audit committee has those responsibilities. As these changes were merely to make the verbiage match the procedures, Councilmember Hugh motioned to adopt the proposed changes to present to City Council for their review and vote. Chairperson Aldama made the second. Motion carried unanimously.

- **NOTE:** A few minutes after the vote, Mr. Kingery noticed that the voice recorder was not functioning. During the next topic, the machine began recording.

Mr. Kingery then explained proposed changes to City Administrative Policy (CAP) # 5. In conjunction with previous audit committee meetings, Mr. Kingery has recommended that IIAP cease functioning as an “orange book” audit shop due to the significant administrative burden associated with compliance. CAP # 5, which includes the Audit Charter, states that IIAP will conform to both the Yellow Book (Generally Accepted Government Auditing Standards or GAGAS, published by the GAO) and the Red Book (International Professional Practices Framework or IPPF, published by the IIA). As a one-person audit shop, Mr. Kingery – through research and discussions with other small audit shops and the Association of Local Government Auditors (ALGA) – has recommended that IIAP function under the new Global Internal Audit Standards (GIAS) promulgated by the Institute of Internal Auditors (IIA).

Ms. Avalos asked if the decision had already been made to switch from following both the Yellow and Red (hence, Orange) Books to just the new GIAS. Mr. Kingery said that was his understanding, but that this discussion would confirm as such. Mr. Kingery replied that as this is a City Policy, it does not necessarily require formal approval by the audit committee, but would defer to the City Manager. Mr. Phelps agreed, and added that it is appropriate to get the committee’s feedback for management’s consideration. Mr. Phelps asked if there were any concerns by the committee for switching to the GIAS.

Mr. Aldama asked for clarification as to whether the standards or changes to CAP # 5 under consideration had come from City management. Mr. Kingery replied they had not. Mr. Aldama asked if there was a timeframe in which these needed to be adopted. Mr. Kingery stated that the GIAS are not yet official. However, the comment period had expired and the IIA plans to publish the final version this autumn.

Ms. Avalos asked for clarification again as to whether formal audit committee approval was required to move from an orange shop to the new GIAS, and whether or not there were specific pros and cons to following certain standards over others. Mr. Kingery indicated that the GIAS have not only addressed many aspects of both the Yellow and Red Books, but they function as more of an industry-wide best practices document that also includes guidance for small audit shops and auditing in the public sector.

Mr. Gibson provided further details with respect to Ms. Avalos' question. He indicated that the annual financial (external) audit and audits of federal expenditures (grants) are performed under Yellow Book standards because those are performed by much larger audit functions with their own quality control and assurance departments.

Ms. Avalos asked if this change to the new GIAS means our contracted audit firms would also need to comply with only these standards. Mr. Kingery indicated that the draft of the new IIAP Policy & Procedures Manual (PPM) is written that way, with the allowance of auditing against Yellow Book standards as well if warranted for a particular audit. Ms. Avalos asked if audits done by IIAP would ever be held to Yellow Book plus the GIAS. Mr. Kingery replied they likely would not be, and a disclosure in the audit report would specify which standards were followed regardless.

Mr. Phelps added that while reviewing the proposed audit plan each year, the audit committee could recommend that certain engagements be performed under Yellow Book standards, which generally means the work would be contracted out. He added that the larger, more complex engagements should go to our qualified vendors, rather than take up so much of the IIAP Manager's time. Ms. Avalos liked the idea of the PPM stating that at a minimum, the GIAS would be followed but that the audit committee and/or City management could suggest performing an audit under Yellow Book standards when warranted. Mr. Aldama asked Mr. Kingery to change the PPM and the audit charter verbiage to clarify as such.

Mr. Phelps noted that the goal of performance audits is to improve the efficiency of the organization under review. He said we should determine how much value there is when going between the Yellow Book and Red Book, especially with the new strengthened GIAS coming into use. He noted that the additional administrative work associated with Yellow Book audits may not bring the corresponding value to the recommendations. He continued that the committee could utilize the completed risk assessment to recommend certain engagements be performed under Yellow Book standards.

Mr. Aldama agreed and asked if there was a vote necessary to make these changes. Mr. Kingery said he would make the recommended changes and share the updated version with the committee members. Mr. Phelps said the recommendation of the audit committee could be to adopt the updated audit charter and PPM under the new GIAS, conditioned upon the formal adoption of the GIAS when published later this year. Mr. Aldama asked if large changes by the IIA to the draft GIAS would be problematic and Mr. Phelps said we didn't

anticipate any issues. Mr. Phelps asked the IIAP Manager if this would affect IIAP policy; Mr. Kingery responded that we are not required to formally adopt any standards, although we typically do.

Ms. Avalos asked that when the IIA officially publishes the final version of the new GIAS, that the IIAP Manager notify the committee. Mr. Kingery said he would do so. Mr. Aldama read under the "Consideration of Fraud, Waste, and Abuse" section of CAP # 5 and asked who would be notified of these. Mr. Kingery replied that his interpretation is this is part of the overall risk assessment process, but that some areas or processes may be inherently subject to more fraud risk than others. Mr. Kingery explained a little more about the process, and Mr. Aldama said he was fine with the wording as written.

Mr. Aldama asked for next steps on this item and when it would have to go to City Council. Mr. Kingery and Mr. Phelps both indicated that because this is an operational policy created by senior management, it does not have to go for council action. Mr. Kingery clarified that only the changes to the ordinance already approved earlier in this meeting require council action. There was no further discussion on this item.

6. **REVIEW OF NEW IIAP POLICY & PROCEDURES MANUAL (PPM)**

The IIAP Manager (Mr. Kingery) explained that he wrote the PPM based on the new GIAS, which are shown in green type throughout the document. He continued that under each section (or multiple sections if they were easily combined) was written what IIAP would do to comply with the standard(s). Mr. Kingery said that for any item highlighted in yellow, it was either something new, or was an action item, or indicated where IIAP practice discloses deviation from a specific standard. He gave the example of workpapers being reviewed by someone else in the audit department, but that as a one-person audit shop, no workpaper reviews are performed.

Mr. Aldama asked for an explanation of the standards related to reviewing IIAP's work. Mr. Kingery explained the process of reviewing a staff person's work to ensure that the testing and conclusions were appropriate and reasonable. Mr. Aldama asked what the standards say with respect to a one-person audit shop. Mr. Kingery said that is not specifically addressed, but he is part of a group of small (one and two person) audit shops in the valley that meet regularly to discuss challenges and issues we're facing. Mr. Kingery has proposed to the group that we do a courtesy review of each other's work from time to time, just so that a different set of eyes can look at it and provide feedback to each other.

Mr. Aldama asked what the time commitment would be to providing these courtesy reviews; Mr. Kingery replied it would depend upon the scope of the engagement. Mr. Aldama expressed his concern with IIAP not having a formal review process in place and suggested we implement one. He continued that he wasn't sure if the audit committee had the expertise to provide this review and whether that was even appropriate. Mr. Kingery said he did not know if committee members had the knowledge and/or time to perform this administrative function. Mr. Aldama indicated that he felt there should be something in policy to address secondary review.

Mr. Phelps said that typically there is the peer review process of a random sampling of audits and felt that is what the small audit group was trying to accomplish informally. He added that the committee could use some sort of assessment tool to select one or more sets of audit workpapers to be reviewed, either by the committee members or an external party. Mr. Phelps also noted that IIAP performs the smaller audits that make sense to be done internally while the larger scale audits are done by bigger professional firms that have their review processes built into the work they perform for us. He felt that what IIAP was trying to do as part of the small audit shop group was a good, proactive practice. Mr. Aldama agreed but wanted the practice to be included within our written policy and procedures.

Ms. Avalos stated that she appreciated the spirit of what the small audit shop group was trying to accomplish. She suggested that the auditors provide a list of the audits they've completed to the other group members so they could select the engagement they'd like to review, keeping more in line with the formal peer review process. Ms. Avalos suggested that the committee should have the right to perform a review as well, if they have the bandwidth to do so.

Mr. Malnar asked about the level of expertise needed to adequately perform such a review. Mr. Kingery replied that the review validates the scope, approach, data gathered, conclusions, findings, recommendations, and potential for actionable management response, while also assessing if the work was performed in compliance with the standards. Mr. Malnar stated the committee should inherently have the power already to ask for a review of any workpapers and that said power does not necessarily need to be written into policy. Mr. Aldama felt it would be good to have the process in writing, even if that was simply to acknowledge that the committee has asked management to hire a party to provide outside review. Mr. Kingery said there would be an associated budget impact for those services, which may require council action through the current budget processes.

Ms. Avalos – who is a Certified Internal Auditor (CIA) – asked if it would be a conflict of interest if she performed the secondary review. Mr. Phelps expressed concern that there may be an appearance of conflict. He asked if there were assessment tools available on how to perform a workpaper review and/or if there are tools that perform automated assessments. Mr. Aldama noted that he's not asking for reviews all the time, just that whatever process adopted is written into our documents. Mr. Phelps added that having an outside person review the work is a good way to strengthen our skillset, but that he did not know what these services may cost. He said upon research of costs, we could build it into the annual budget process.

Mr. Aldama asked the IIAP Manager to summarize the changes discussed during this meeting and share that with the committee. He affirmed that this process is administrative only and no council action is needed. He and Mr. Malnar inquired as to the timeframe that changes need to be agreed upon. Mr. Phelps said because the PPM is an internal document in its initial creation stage, we can incorporate any changes at any time. The committee agreed to review the latest version of the PPM during the December meeting.

Mr. Kingery explained that the idea for the small audit shop group was to be a sounding board and bounce ideas off each other, providing a free resource for peer feedback. While informal in nature, the small audit shop group could be listed as a resource within the formality of the PPM. Ms. Avalos asked if the PPM also needed to specify the continuing education requirements for the practicing CIA versus non-practicing status. Mr. Kingery affirmed that he is a practicing CIA and Certified Fraud Examiner (CFE), among other designations, and that the PPM verbiage matches the current requirements. There was no further discussion on this item.

7. **FY2023-24 AUDITOR'S ANNUAL INDEPENDENCE STATEMENT**

Mr. Kingery explained the background of the annual independence statement and affirmed that he's had no issues with potential conflicts of interest or impairments to independence. He noted that the only change to the statement itself was replacing the Yellow Book citations from prior versions with the corresponding applicable sections of the new GIAS.

Mr. Phelps asked the chair if he could briefly revisit the last topic. He wanted the committee to recognize that having a complete PPM was a significant undertaking. He said he knows it was a large effort that took a lot of time for the IIAP Manager to create. Mr. Aldama acknowledged and added that while councilmembers probably don't say it enough, they do appreciate the amount of work done by staff, especially as a one-person department such as IIAP. He thanked the IIAP Manager for the work and standing behind it through committee scrutiny. Ms. Avalos also expressed her appreciation for the efforts and work of the IIAP Manager and willingness to accept the committee's feedback. There was no further discussion on this item .

8. **GOAL SETTING AND TOPICS FOR DISCUSSION**

Mr. Kingery explained that this is the annual addressal of affirming, changing, and/or adding new committee goals. He indicated that the current first goal related to the external peer review and that it should now occur in FY25 as ALGA recommends the new PPM be in place for at least one year prior to the review. He continued with the second committee goal being the quarterly update of outstanding audit findings. Mr. Kingery asked the committee if they wished to keep these two goals in place, or change them or add additional goals. The committee was satisfied with keeping the two current goals as is.

Mr. Kingery then directed the committee's attention to the spreadsheet that provides the current status of outstanding findings. He explained that each quarter he reaches out to departments for the latest info on each, adds new findings that have become due since the previous audit committee meeting, and confirms that management action is complete where indicated as such. For those that have now been shown as complete, they will be removed from the spreadsheet for the next meeting.

Mr. Aldama had a question for Ms. Rios related to the p-card findings on the spreadsheet. She deferred to Mr. Gibson who explained that Budget & Finance completed in-person training last fall and has rolled out online annual training through the City's new Learning Management System (LMS or NeoGov). Mr.

Gibson said they will be able to track those who had not yet taken the training and email reminders will be sent to the cardholders and their supervisors.

Ms. Durda asked if we needed a vote or consensus on the goal setting. Mr. Malnar stated that adoption of the goals is implied through this discussion as a committee; Mr. Phelps agreed. Mr. Malnar then motioned to accept the goals as written, which was seconded by Mr. Hugh. All the voting committee members present approved the motion. There was no further discussion on this item.

9. **UPDATE TO FY23 AND FY24 AUDIT PLANS**

Mr. Kingery reviewed the status of the FY23 audit plan, noting that four are still in process and the remaining audits were complete. For the FY24 audit plan, he explained that most of them were awarded to Moss Adams and the IT audit was awarded to Securance. He added that for the other two engagements on the FY24 audit plan – Landfill regulatory compliance and the audit of Parks & Recreation – we did not receive adequate bids from our qualified vendors. Mr. Kingery said there were some options in motion with the Procurement department. He said he did some research online for potential vendors in case we need to go through a separate RFP process, but did not contact any vendors – all but one of which were located outside Arizona.

Mr. Aldama said that he was unsure of the year, possibly 2018, that he asked the council to consider a disparity review and report of all the City's parks and its amenities. He said it was a good report and that the City built its plan around that. He felt that the consultants did a good job with that engagement and may be one that could perform this audit as well. He asked Mr. Rios if she recalled which year that was done. She could not, but said she has the report and it was part of the Parks & Rec master plan.

Ms. Avalos noted that if other members of the small audit shop group had gone through similar audits, they might have recommendations for potential vendors as well. Mr. Kingery indicated that Procurement is going through the list of state and county contracts to see if Glendale can piggyback on one of those, potentially not needing the RFP process. He added that the two contracts for Moss Adams and Securance had been sent from Procurement to the City Attorney Office in the last few days and should be executed soon.

Mr. Phelps stated that for the ADA compliance of Parks & Recreation and the Landfill regulatory compliance engagements, there likely are many consulting firms in the market that could do a sound review. However, he was unsure if they could be done within the appropriate auditing standards without severely reducing the potential vendor pool. He felt it might be a challenge to fit the work into a peer reviewed audit. Mr. Aldama agreed. Mr. Phelps thought one approach may be to have a consulting review first, and then depending on the outcome, the committee could determine if additional, peer-reviewable audit work was needed.

Mr. Aldama agreed and noted that the ADA compliance engagement for Parks & Rec also may be more of a consulting review and not necessarily an audit. He felt that as a review (versus an audit), there will likely be more potential vendors to choose from that can provide this service. Ms. Avalos asked what during the

annual risk assessment process brought these two specific engagements to the fore. Mr. Kingery replied that management of each area recognized they present risks to the City and may benefit from a set of external eyes to assess their operations and compliance. Ms. Avalos continued that maybe a review for both of these made sense as discussed just prior. Mr. Phelps added that the committee could then assess the results of the review and determine if a more formal, in-depth audit was warranted. Mr. Gibson offered that the reviews could even be done as an Agreed Upon Procedures (AUP) report, where the City specifies what aspects they want reviewed to quickly determine levels of risk and compliance.

Mr. Aldama stated that regardless of what level of review or what it is called, there will be some recommendations prompting management corrective action. He asked if a review or AUP goes through the department first and then somehow to the audit committee. Mr. Phelps gave the example of dust abatement at the Landfill and indicated it would be helpful to know how and where improvements could be made, which seems more like a consulting role than an audit role due to their industry expertise.

Mr. Aldama agreed and continued with a Parks & Rec example related to ADA compliance. He noted there are specific risks associated with ADA that may require the City to pay out a claim if injuries occur. Ms. Rios noted that Parks & Rec may already have concerns and need to know the process to best identify and correct potential issues. In years past, she felt the focus may have been on ADA as part of the Parks & Rec master plan, but now has evolved to the process of assessing compliance and planning for corrections if needed. Mr. Aldama agreed. Ms. Rios continued that we need to know the process of being notified of a potential hazard or someone requesting an accommodation. Ms. Avalos suggested that perhaps we're looking more for best practices and Ms. Rios said that might be why these aren't necessarily a true audit.

Mr. Aldama indicated most municipalities were eligible for federal funding for ADA compliance, such as the ramps/approaches to sidewalks. He asked how the City identified which sidewalks needed modifications to be compliant. Ms. Rios said that was a project within the Streets (Transportation) department and likely depended upon when improvements were being made to affected streets/intersections. She noted that their process may differ from Parks & Rec, but wondered if there was anything at the citywide level to address this type of thing.

Mr. Aldama asked what the best way is to address these two engagements on the audit plan and whether or not they should first be done as reviews. Mr. Phelps said the management team would do some further research and discuss options, and then revisit with the committee in the December meeting. Ms. Avalos said she's not sure the decision falls to the committee but would like to know ultimately what is done and where it belongs as part of the City's risk portfolio. Mr. Gibson noted there are many different types of risk that can be associated with each, and that while these two may not end up being audits, internal audit is a risk mitigation tool and it would still be a good thing for the committee to understand. There was no further discussion on this agenda item.

10. **COMMITTEE COMMENTS AND SUGGESTIONS**

Ms. Avalos asked if there were any plans in the budget to provide IIAP with another staff member, perhaps a college intern on a part-time basis. Mr. Aldama then asked Mr. Phelps to whom the IIAP Manager currently reports. Mr. Phelps replied that ultimately it is to the City Manager but that most recently it had been the Director of Organizational Performance who terminated employment a few weeks ago. Mr. Aldama asked that if the IIAP needed assistance, is that an administrative process or does it require council action. Mr. Phelps said it could go either way. If senior management determined additions to IIAP staff levels were necessary, it would be presented to City Council through the annual budget process.

Mr. Phelps said we would need to discuss further because the original idea for structuring the internal audit function as it currently exists was to leverage outside firms for performing more and larger scale audits than a small internal team could. He continued that there is a rotational intern program at the City and that may be an option for use in the IIAP. Ms. Avalos added that she knows the IIAP Manager has a very heavy workload and that at each quarterly committee meeting it seems that more work is assigned to him. She added that her organization has a large audit shop that frequently utilizes college interns who produce excellent work, which is a win-win for both parties.

Mr. Aldama asked if the IIAP Manager has an administrative assistant, and Mr. Kingery replied that he does not. Mr. Aldama asked the City Manager to research possible options for administrative support to the IIAP. Mr. Phelps said they would see if some internal resources are available and come back to the December meeting with more details. With plans to recruit for the now vacant Department of Organizational Performance Director, along with an assessment of current IIAP workload, those may also factor into potential options available.

Mr. Aldama affirmed that he would like to see the data upon conclusion of researching the options. Mr. Phelps said again he would like to utilize internal support resources if available, adding that the biggest concern is making sure the IIAP Manager can spend less of his time on administrative items and more time on items within his industry's skillset. There were no additional comments, suggestions, or questions.

11. **NEXT MEETING**

The next regular meeting of the Audit Committee will be held on December 13, 2023, at 2:00 p.m., at a location to be determined. All committee members agreed on that date/time.

12. **ADJOURNMENT**

With no further business, Councilmember Aldama adjourned the meeting at 3:15 p.m.

The Audit Committee meeting minutes of September 7, 2023 were submitted and approved this \_\_\_\_ day of \_\_\_\_, 2023.

---

Michael Kingery  
Internal Audit Program Manager