



# CITY COUNCIL REPORT

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Meeting Date: **2/5/2013**  
Meeting Type: **Workshop**  
Title: **DRAFT SCOPE OF WORK FOR FORENSIC AUDIT**  
Staff Contact: **Sherry Schurhammer, Executive Director, Financial Services Department**

## **Purpose and Policy Guidance**

This is a request for City Council to review the draft scope of work for a forensic audit and to provide direction on desired modifications to the draft so staff may proceed with issuing a Request for Proposal (RFP).

## **Background Summary**

Over the past several months, Councilmembers have individually expressed a desire to have a forensic audit conducted. A consensus of the Council was reached and direction was provided at a December 4, 2012 executive session to proceed with a forensic audit of the following funds:

- General Fund (GF)
- Enterprise Funds (sanitation, landfill, and water and sewer)
- Restricted Sales Tax Funds (transportation, police and fire)
- Risk Management Trust Fund
- Workers Compensation Trust Fund
- Employee Benefits Fund

Since the December 2012 executive session, a draft scope of work was developed after reviewing scopes of work that other entities have used for such services. Four RFP examples were found through websites for the American Institute of Certified Public Accountants (AICPA) and the Government Finance Officers Association (GFOA) and an example of a completed study was found from an Arizona city. After a careful review, the examples indicate that:

- An audit firm was the service provider being sought in four of the five examples with the remaining example using the services of a consultant that provides a wide range of services including management consulting;
- The scopes of work were individualized to address different circumstances at the agencies requesting the forensic audit;
- The scopes of work stated that the identified scope could be amended to include additional work depending on the findings and recommendations resulting from the initial scope of the forensic audit.



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Given this information, a draft scope of work was prepared for Council to review and provide direction regarding modifications to the scope.

In general, the attached draft scope of work covers a comprehensive review and reconciliation of current and past fund practices in order to identify and quantify any abnormal financial activity, if any, during Fiscal Years (FY) 2009-10, 2010-11 and 2011-12. Further, the draft scope of work states that Council is seeking an explanation and detailed documentation for the depletion of the GF fund balance. This examination includes evaluating compliance with applicable city, state and federal laws.

The draft scope of work states that the auditing firm shall perform investigations and research to assure citywide compliance with generally accepted accounting principles (GAAP) as well as provide findings and recommendations, if any; to correct any identified accounting procedures or practices that are nonstandard or irregular. These findings and recommendations shall include cause and consequence of any instance, if any; of criminal activity, illegal acts, and potential fraudulent activity or civil liabilities.

The funds to be examined are those that Council identified at the December 5, 2012 executive session. Council may want to consider modifying that list to exclude the transportation sales tax fund because a different Request for Proposal (RFP) for a financial and performance audit will be issued within the next couple of months. An audit of the transportation sales tax fund is required every three years by city ordinance 2241 (February 12, 2002), which was established as a result of voter approval of Proposition 402 in 2001.

Following the completion of the audit, the draft scope of work states that the auditing firm will issue:

- A written report communicating all discovered abnormal financial activity, past or present, its quantification, cause and consequence including instances of criminal activities, illegal acts and potential fraudulent activity or civil liabilities that could support future legal action to the city.
- A letter to Mayor and Council indicating any reportable conditions found during the audit. A reportable condition shall be defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize and report financial data in the financial statements.

The draft scope of work proposes that the selected auditing firm report to the City Manager while the forensic audit is underway, with the firm's draft and final report recommendations presented to the city's Audit Committee. The Audit Committee is comprised of two Councilmembers, two citizens with a financial background, preferably in public or internal auditing, and the City



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Manager. For comparison purposes, the forensic audit examples referenced earlier in this report reflect a range of reporting structures:

- School superintendent (organization’s administrative director) for a request for a RFP issued by a South Carolina school district board;
- Budget and Finance Department for a RFP issued by a county in Pennsylvania;
- City Council for a RFP issued by a city in Florida;
- City Attorney for a study conducted for the city of Surprise, Arizona.
- The reporting structure for the forensic audit requested by the state of Indiana’s Housing and Community Development Authority was not clear.

The RFP will be issued following the city’s competitive bid process with an evaluation committee evaluating proposals based on the selection criteria that are detailed in the draft scope of work. The solicitation process – from issuance of the RFP, evaluation of proposals by the evaluation committee, to interviews with the finalists, to requests for a best and final offer, to negotiation of a contract to bring forward to City Council – is expected to take at least five or six months.

## **Budget and Financial Impacts**

The cost of the forensic audit is unknown until a RFP solicitation is completed. Once this process is completed, a proposed contract award will be presented to Council along with a recommended funding source. For comparison purposes, the triennial performance audit for the transportation sales tax fund cost about \$215,700 when it was last completed in November 2011.

## **Attachments**

Other

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City of Glendale

## MEMORANDUM

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DATE: January 25, 2013  
TO: Mayor and Council  
FROM: Horatio Skeete, Acting City Manager  
SUBJECT: City of Glendale, Arizona - Forensic Audit

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### Scope of Work

The City of Glendale, Arizona will issue a Request for Proposals (RFP) in spring 2013 to solicit a response from qualified auditing firms to conduct a forensic accounting audit of selected internal city funds.

The successful, most responsive and most qualified auditing entity shall perform a forensic accounting examination involving a factual investigation deemed necessary to identify and quantify any abnormal financial activity, if any, during the following fiscal years (FY)

- FY 2009-2010 (July 1, 2009 – June 30, 2010)
- FY 2010-2011 (July 1, 2010 – June 30, 2011)
- FY 2011-2012 (July 1, 2011 – June 30, 2012)

The purpose of the forensic audit is to complete a comprehensive review and reconciliation of current and past fund accounting practices. This examination includes evaluating compliance with applicable city, state and federal laws.

The funds covered by this scope of work are the following:

- General Fund (GF)
- Enterprise Funds (sanitation, landfill, and water and sewer)
- Restricted Sales Tax Funds (transportation, police and fire)
- Risk Management Trust Fund
- Workers Compensation Trust Fund
- Employee Benefits Fund

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It should be noted that City Council also is seeking an explanation and detailed documentation for the depletion of the GF fund balance. For the GF, the city started FY 2008-09 with a \$66.4M fund balance [on a CAFR (Comprehensive Annual Financial Report-basis)]. At the end of FY 2011-12, that fund balance declined to a negative (\$26,649) on a CAFR-basis.

The selected auditing firm should have an established capacity to perform forensic accounting procedures for government organizations such as the City of Glendale, and be able to conduct a forensic examination that will include findings and recommendations to correct nonstandard, irregular accounting procedures or practices or policies.

During the course of the initial investigation, the scope of work may be further expanded or altered at the recommendation and approval by the City of Glendale, Arizona (Glendale) Mayor and Council. It is possible that the initial forensic audit may uncover new facts, unknown data or relevant queries that could change the scope of the audit.

The auditing firm shall perform investigations and research to assure citywide compliance with generally accepted accounting principles (GAAP) and keep city management informed of any findings on a routine basis.

In addition the forensic audit will include a comprehensive review of all types of payments including, but not limited to:

- Automatic payments
- All type of deposits
- All types of procedures
- Signature authorizations
- Miscellaneous documentation and other pertinent authorizations

The forensic audit will include a thorough review of internal control systems including:

- Cash
- Personal checks (including Payroll)
- Credit cards
- Online payments
- Other payment transactions and internal controls

The criteria for evaluating the submitted proposals are the following:

- Firm's Understanding of the Project. This criterion addresses the firm's understanding of the project as discussed in the firm's bid proposal. Each firm's proposal shall discuss the highlights, key features and distinguishing points of its approach to undertaking and completing the project. This criterion also includes the firm's approach to examination including the adequacy of sampling techniques and adequacy of analytical procedures. Further, the firm's proposal must demonstrate it is able to fulfill the city's other specifications as identified in the Request for Proposal (RFP). **40%**

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- Firm's Capability. This criterion addresses the firm's track record in completing comparable work for other local government agencies in the western United States within the last five years and to complete such work on time and within budget. The capability and availability of the consultant will be part of this evaluation. Also included in this criterion is the quality of personnel assigned to the project (education, position in firm, years and types of comparable experience). Special consideration will be given to the ability and experience of the project manager. **30%**
- Overall Price. The maximum aggregate fee proposed for this performance audit. **15%**
- References. Firms will be required to provide three references from other local government agencies in the western United States for which it has completed comparable projects within the last five years. **15%**

## **Cost to Provide Services**

Glendale recognizes and understands that the Scope of Work is broad and subject to change. In addition, the city is cognizant of the fact that budgets may be difficult to provide in response to this forensic audit. However, as a government entity, cost is an important factor. It is possible that once the auditing firm initiates a wide-ranging evaluation and audit, the firm will uncover new facts that could change the scope of the audit and impact the cost significantly.

To assess the funding necessary to complete a thorough forensic audit, the auditing firm must provide a budget to perform the base services along with a supplemental expenditure sheet detailing hourly rates to provide those services.

## **Reports to be Issued**

The auditing firm will report to the City Manager. The firm's draft and final report recommendations will be presented to the city's Audit Committee that is comprised of two Councilmembers, two citizens with a financial background preferably in public or internal auditing and the City Manager.

Following the completion of the audit, the auditing firm shall issue:

1. A written report communicating all discovered abnormal financial activity, past or present, its quantification, cause and consequence including instances of criminal activities, illegal acts and potential fraudulent activity or civil liabilities that could support future legal action to the city.
2. A letter to Mayor and Council indicating any reportable conditions found during the audit. A reportable condition shall be defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize and report financial data in the financial statements.