

**APPROVED MINUTES
APPROVED ON 6/20/2016**



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

MONDAY, APRIL 18, 2016

**Kiva Conference Room
3939 North Drinkwater Blvd
Scottsdale, AZ 85251**

REGULAR MEETING

PRESENT: Suzanne Klapp, Chair
Virginia Korte, Councilmember
Kathy Littlefield, Councilwoman

STAFF: Sharron Walker, City Auditor
Cathleen Davis, City Auditor's Office
Kyla Anderson, City Auditor's Office
Sharon Cini, City Manager's Office
Jeff Nichols, City Treasurer
Joyce Gilbride, City Treasurer's Office

GUESTS: James Campbell, Human Relations Commission Chair
Joseph Ettinger, Human Relations Commission Member

CALL TO ORDER

Chair Klapp called the meeting to order at 4:00 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

1. Approval of Minutes, Regular Meeting, February 22, 2016

COUNCILMEMBER KORTE MOVED TO APPROVE THE MINUTES OF THE FEBRUARY 22, 2016, REGULAR MEETING. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF THREE (3) TO ZERO (0).

2. Discussion and possible direction to staff regarding Human Relations Commission Sunset Review

Cathleen Davis, Senior Auditor, stated that the Human Relations Commission's purpose is to advocate and promote all dimensions of diversity. The Commission acts as an advisory board to make recommendations to encourage mutual respect and understanding among people. The Commission can also make recommendations regarding special events that will further its purpose. Today, the Audit Committee is to evaluate whether the Commission is serving its intended purpose, whether the Commission's purpose should be maintained or modified and whether the purpose has been served or is no longer required. Specifically, the Audit Committee is to recommend to the City Council whether to continue or terminate the Commission. The sunset review packet includes the most recent annual reports, and the staff liaison, Sharon Cini, is here as well as a couple Commission members.

Councilmember Korte congratulated the Commission on taking that next step to really become active in fulfilling its mission via its successful outreach efforts and providing valuable programs to the community. Chair Klapp commented that she tries to attend most of these programs and appreciates them. Human Relations Commission Chair Campbell thanked the Committee. He also noted that Sharon Cini has enhanced the Commission's ability to do what it is supposed to do and thanked her. Commission Member Ettinger joined in expressing appreciation for Sharon's work. Chair Klapp stated that she would like to see the Commission continue with its work.

COUNCILMEMBER KORTE MOVED TO RECOMMEND TO CITY COUNCIL THE CONTINUATION OF THE HUMAN RELATIONS COMMISSION. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF THREE (3) TO ZERO (0).

3. Discussion and possible direction to staff regarding Audit No. 1611, Cash Handling Controls & Accountability

Cathleen Davis stated that that the audit of cash handling controls and accountability was performed to review cash handling processes and controls for effectiveness and compliance with related administrative regulations. As discussed in previous audits related to cash handling, the City's Administrative Regulation 268 provides the required controls for cash handling staff. During FY 2014/15, staff at 55 locations throughout the City collected approximately \$532 million for various fines, fees, services and products, representing approximately 90 percent of the \$594 million in revenues received by the City during the fiscal year.

Unannounced visits were made at 40 cash handling locations. While City staff at the locations reviewed generally account for and handle cash appropriately, improving controls at some locations could help prevent errors and irregularities or make their detection easier. The following issues were identified at some locations:

- Several aspects of individual accountability, such as cash balancing and individual responsibility for cash drawers and registers, are not maintained.
- Deposits are not prepared daily and receipts from multiple days are combined for deposit.

- Supervisory reviews are not consistently recorded.
- Access to some safes is not sufficiently restricted.
- Some locations did not immediately record transactions or did not have access to one of the City's cashiering systems.
- Segregation of duties in some programs is not adequate
- Dual custody is sometimes not maintained for mail and honor box receipts.
- Cash handling practices and forms varied widely among different locations within some departments.
- Financial records the divisions produce are not on their Records Inventories with the associated retention requirements.

Also, Accounting Department oversight can be improved. Increased oversight and compliance with administrative regulations could improve cash handling accountability. The following issues were identified:

- Cash handling training has not been provided to a majority of the City's current cash handlers.
- Accounting staff has not performed documented cash verifications since approximately June 2012.
- Revoked AR exceptions were not adequately communicated to the cash handling locations.

As shown in the Management Action Plan, the divisions, departments and City Treasurer's office generally agreed with the recommendations. Since the public report is written at a high level, we did not ask all the various areas to attend today's meeting. But Jeff Nichols and Joyce Gilbride from the City Treasurer's office are here.

Councilmember Korte inquired about training protocols and which department is responsible for that. Ms. Davis responded that the City Treasurer's office is. Joyce Gilbride, Accounting Director, commented that the City Treasurer's Office is responsible for compliance with the AR, which includes the standards for cash handling but each area is responsible for training its cash handling staff. Councilmember Korte asked about standard protocol for that. Ms. Gilbride responded that each area has its unique processes.

Chair Klapp asked whether there is a standard form is provided to the departments for reconciling cash at the end of the day or does each area make their own. While there would be some differences in taking payments over the counter compared to opening mailed-in payments, there could be consistency after that in balancing at the end of the day. Ms. Gilbride stated that a reconciliation should take place between the cashiering system used and the actual receipts, however she was uncertain as to whether all departments used the same form and process.

Ms. Walker commented that each department creates its own forms. A variety of forms are used, even within the same department or division. Auditors have encouraged department staff to develop consistent processes within their own areas based on best practices. This includes use of a standard form within the department or division. Chair Klapp commented that use of a standardized form would provide consistency and make training easier too. Ms. Walker added that this would also provide a smooth transition

when a member of staff works in a different location or department. Ms. Gilbride stated that this is something the City Treasurer's Office could work on. Councilmember Korte commented that a standard operating procedure, a best practice that everyone uses, is what should happen.

Councilwoman Littlefield agreed with the comments made related to a standard form and procedure. She also expressed concern over the lack of mandatory training and recommended semiannual training. Ms. Gilbride commented that attendance enforcement is difficult. A computer based cash handling training program is being developed at this time, which they hope to complete within the next year. Individual site visits are conducted as requested or deemed necessary based upon cash receipts received on a daily basis. Jeff Nichols, City Treasurer, commented that training should be mandatory for all cash handling positions. In response to Councilmember Korte's question, Mr. Nichols responded that they can probably make that requirement through the AR.

Ms. Walker observed that providing computer based training would facilitate the sites getting their staff trained while also keeping their operational coverage. So that would be a very positive improvement.

In response to discussion regarding the difficulty in reconciling multiple days at one time, Mr. Nichols commented that the larger areas have procedures and it's the smaller areas that don't. He noted that the audit identified a loss that occurred when some deposit bags went missing. The responsibility could not be determined because so many people had the key to the safe location. In response to a question, Ms. Walker explained that the area had the cashing transactions detailing how much the 3 missing deposit bags contained. Staff contacted the individuals who had paid by check and most were willing to put a stop payment on their check and issue a replacement check. (The City agreed to pay the stop payment fees.) In this way, staff recovered about half the amount that was taken.

Councilwoman Littlefield stated that there should also be a mechanism of responsibility in place for staff members with key access to safes. Ms. Gilbride commented that dual custody is recommended, where key and combination responsibilities are held by separate individuals. A common complaint is that there are not enough staff to maintain dual combination safes.

Chair Klapp commented that she had suggested a couple years ago simplifying the process of depositing checks by scanning them and checks are handled that way by a lot of companies now. Ms. Walker noted that some City areas are also interested in having more customer access to pay online so there won't be as much cash handling onsite.

Chair Klapp inquired whether all areas have access to credit card processing. Ms. Davis commented that most do, but not all areas. Ms. Gilbride stated the Treasurer's office can provide those departments not already equipped with the necessary tools. Further, she will look into the desktop scanning because that may help areas that don't deposit frequently enough.

Councilwoman Littlefield asked what the timeframe is for developing the online training. Ms. Gilbride indicated they should be able to complete it within the next 6 months or so.

4. Discussion and possible direction to staff regarding Annual Expenditure Limitation Reports (AELR)

Kyla Anderson, Senior Auditor, provided the presentation. Arizona statutes require the City's external audit firm to attest to the AELR. No issues were found in the FY 2013/14 or FY 2014/15 reports. The AELR opinion is typically completed in January or February following the financial audit report so it's not included in the report provided to the Committee in November. The Audit Committee had no questions.

5. Presentation and discussion of 1st Quarter CY 2016 Taxpayer Problem Resolution Officer Report

Ms. Walker stated that the report was positive as usual. Tax Audit had no surveys returned this time. Its business is declining greatly as responsibilities are transitioning to the State level. Chair Klapp noted that due to a typo in the Billing section for Tax & License, the Positive rating should reflect 100% rather than 10%. Ms. Walker concurred on this correction.

6. Discussion and possible direction to staff regarding 3rd Quarter FY 2015/2016 Follow Up on Status of Audit Recommendations

Ms. Walker stated that the two statistics typically added together, fully implemented and partly implemented recommendations, total 73.4 percent. This reflects progress in completing recommended changes as the same quarter of the previous year totaled 69 percent. The not implemented recommendations increased slightly, mostly related to the procurement audit. Some of the other "not implemented" items have been listed for a while, such as older audits in the Treasurer's area. Ms. Walker commented that she could revise the report to cover a two or three year term rather than five years. Committee members agreed this would focus on the more current issues.

7. Discussion and possible direction to staff regarding Preliminary FY 2016/2017 Audit Plan

Ms. Walker reviewed preliminary topics for next fiscal year's audit plan. The final list will come before the Committee for formal approval in June. This preliminary list first includes audits that are required and/or continuing from the current plan, including a construction contract audit that has just gotten underway. The preventative repair and maintenance audit was moved to next year.

E-Verify has been moved back onto the plan as requested by CPM. The City receives federal funding through ADOT for certain capital projects and ADOT performs due diligence reviewing the City's procedures for complying with their requirements. As part of that, ADOT asked CPM how the City ensures contractors E-Verify compliance. The state's procedures are to send a letter asking the contractor to certify again that they comply. Ms. Walker provided her procedures of selecting a sample of contracts and going onsite to verify the contractor's records, which ADOT agreed would fully comply

with the requirement. Since reviewing contractors E-Verify compliance hasn't been on the audit plan for a couple years, it is being put back on to satisfy this requirement.

Other topics listed as potential audits have been identified in various discussions as well as through risk assessment ratings. The provided list is not in any particular order. In response to Chair Klapp's question, Ms. Walker explained that the number of audits to be included will depend upon the size and scope of each potential audit. However they typically complete 14 to 15 reports per year, including the follow-ups. The preliminary list represents about 2 times the amount of available staff hours. So based on feedback on the preliminary list, she will develop a proposed list that fits with the available staff hours.

In response to a question from Councilmember Korte, Ms. Walker replied that the potential Museum of the West audit would be the operating contract rather than the construction contract. Councilmember Korte asked if the potential CVB audit would be the same; Ms. Walker confirmed it would be and that it was last audited in 2009. In response to discussion of when the Cultural Council was last audited, Ms. Walker replied it was in 2011. Councilmember Korte commented that Museum of the West is a fairly new entity and suggested that be replaced with an audit on the Cultural Council. Councilwoman Littlefield agreed that she would like to see the Museum of the West operating for a couple years before its first audit.

Ms. Walker clarified that of the three potential audits listed for the Tourism area (Museum of the West, CVB contract and Tourism Fund), only one would likely be conducted. Chair Klapp commented that the last audit of the Destination Marketing contract has been longer and would be the one that would be due.

Councilmember Korte commented that she would like to see capital improvement project overhead charges included.

Chair Klapp suggested that items shown as not having previously been audited should generally rise to the top. For example, several of the real estate areas have not previously been audited. Councilmember Korte inquired about the White Buffalo lease. Ms. Walker clarified that it's the McDowell Mountain Golf Course lease. Councilwoman Littlefield agreed but suggested choosing one of these real estate items rather than all of them. She also suggested inclusion of the City utility cost and controls. Ms. Walker noted that this potential audit would look at whether the City is only being billed for its own meters. A contracted audit previously evaluated whether the City is on the best rate plans.

In response to a question from Chair Klapp, Ms. Walker explained that a potential audit of traffic control systems may evaluate the statistical information collected and the analysis behind the recommendations being made. Chair Klapp asked if there has previously been an audit of the Traffic Management Center; there has not.

Councilwoman Littlefield asked about the facility and field reservations and what it would entail. Ms. Walker stated that during the recent cash handling audit, it was found that individual staff members are responsible for some location's reservations from start to finish, which leaves the potential for audit concerns.

Councilwoman Littlefield addressed the irrigation contracts, noting that they have not been audited in some time. Ms. Walker stated that this audit would look at contract compliance, cost apportionment and whether the City is recovering its costs.

In response to a question from Chair Klapp, Ms. Walker stated that the last medical claims processing audit was performed in 2011. She noted that it was placed on the list partly due to the change in third party administration from Aetna to Cigna.

Councilmember Korte suggested that the City Auditor revise and bring back the prioritized list since the Committee members were interested in all of them. Chair Klapp also suggested getting input from the Acting City Manager and directors. Ms. Walker noted that the potential audit list had been provided to the Executive Team with feedback requested.

8. Discussion and possible direction to staff regarding Status of 2015/2016 Audit Plan

Ms. Walker noted that the biannual certified audit of water resources development impact fees is underway. A draft report is expected in early May with the final report due by June 8, 2016, in time for the Audit Committee's June 20th meeting. The statute requires the report to have a public hearing within 60 days and it has been placed on the Council agenda for June 21st.

The IT audit is underway. The contract firm, KPMG, will be conducting a risk assessment of IT controls, looking at the centralized IT department and how the decentralized structure in the various departments fits within that. Areas for future IT audits will also be developed from this assessment. The work will be conducted in May with the final report to be completed in time for the June meeting.

The added construction audit was originally scheduled for completion in June, however the assigned auditor has simultaneously been assisting with CPM's follow-up on the Scottsdale Road Improvements audit and Real Estate's follow up on the recent SkySong audit. Therefore, the completion of the new construction audit has been rescheduled for August.

9. Update regarding winning Distinguished Knighton Award

Ms. Walker commented that she wanted to provide the Audit Committee the March 31, 2016, letter from the Association of Local Government Auditors announcing the award for the Scottsdale Road Improvements audit since it has the judges' comments related to the selection. Committee members congratulated staff on the award.

10. Discussion and possible direction to staff regarding agenda items for next Audit Committee Meeting (June 20, 2016)

Ms. Walker stated that the June meeting may be longer than usual. The agenda includes the biennial certified audit, the IT risk assessment, Human Resources compliance programs and Transit service contracts as well as annual reports and the proposed audit plan.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 5:12 p.m.

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