

**APPROVED MINUTES
APPROVED ON 9/18/2017**



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

Monday, June 26, 2017

**City Hall, 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
Kyla Anderson, Senior Auditor
Lai Cluff, Senior Auditor
Cathleen Davis, Senior Auditor
Will Davis, Police Planning Research & Accreditation Director
Helen Gandara, Assistant Chief, Administrative Services
Steve Geiogamah, Tourism Development Manager
Anna Henthorn, Accounting Manager
Cassie Johnson, Police Analyst II
Alan Rodbell, Chief of Police
Rachel Smetana, Mayor's Chief of Staff

GUESTS: Linda Dillenbeck, Tourism Development Commission Member
Robb McCreary, Tourism Development Commission Member
Matt Miller, Heinfeld Meech
Jill Shaw, Heinfeld Meech

CALL TO ORDER

Chair Klapp called the meeting to order at 3:58 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

1. Approval of Minutes, Regular Meeting, May 8, 2017

COUNCILWOMAN LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE MAY 8, 2017 REGULAR MEETING AS PRESENTED. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

2. Discussion and Possible Direction to Staff on Tourism Development Commission Sunset Review

Cathleen Davis, Sr. Auditor, summarized that the Tourism Development Commission was established in the Scottsdale Revised Code to act as an advisory board to the City Council on matters concerning the expenditure of revenues from the Special Revenue Fund for Tourism Development. Specifically, the Commission is to recommend to the City Council approval, conditional approval or denial for all uses of funds from that portion of revenues from the Special Revenue Fund for Tourism Development. The Commission also prescribes the application procedure and establishes criteria for determining how the funds are allocated, as well as reviewing the City's long-range plans for the tourism industry.

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

3. Discussion Regarding Scope and Timing of the City's FY 2016/17 Financial Audit

Kyla Anderson, Sr. Auditor, introduced Jill Shaw with Heinfeld Meech, who reviewed the scope and timing of this year's audit. Ms. Shaw stated that the engagement letters were completed on March 28th, which started the audit process. The scope of the external audit includes a financial statement audit. This involves looking at supporting documentation for financial statement balances to ensure they are materially and properly stated. Also included is the single audit, which is required because the City spends more than \$750,000 in federal funds. Each year the audit rotates which federal programs it looks at, and this year the focus will be the Section 8 Housing Voucher Program.

Also included within the scope are individual audits of each of the five CFDs, as well as the Scottsdale Preserve Authority and Municipal Property Corporation. Each results in a separate annual financial report. Another element is the annual expenditure limitation report, which is an opinion provided as to whether or not the City spent within required statutory limits. The next element looks at compliance with HURF regulations and whether these funds are being spent in accordance with statutes. Lastly, there is a special reporting done through the HUD REAC system. In addition, internal controls are

reviewed to prevent misstatements and fraud. There is a requirement to report any identified deficiencies of a material nature.

The audit is performed in accordance with government auditing standards which details management's responsibility throughout the audit process, that management is responsible for the implementation and development of internal controls. At the conclusion of the audit, a management representation letter is signed by management. Auditors will come back in September once the general ledger is closed in order to complete audit work. A detailed audit timeline has been approved by the City Auditor, which ensures that all regulatory deadlines will be met and for the final reports to be delivered to the City Auditor's Office by November 2nd.

Chair Klapp thanked the auditors for their work.

4. Discussion and Possible Direction to Staff Regarding Audit No. 1703, Patrol Operations

Lai Cluff, Sr. Auditor, said the audit of Patrol Operations was performed to evaluate the effect of the FY 2016/17 police staffing reorganization on previous results for Patrol Services as reported in the January, 2016 study conducted by the consultant Center for Public Safety Management. The FY 2016/17 police staffing reorganization reduced Patrol positions by a total of 13 officers. Nine were reduced through attrition, three were moved to the Bike Unit and one moved to the Training Unit. Patrol deployment was adjusted in July 2016, and the last of the positions reduced by attrition were completed by October 2016.

The analysis compared patrol operational measures for July 2016 through March 2017 to the FY 2014/15 results reported in the CPSM study. This included Patrol response times, occupied time per call, number of responding units per call and the time spent on reactive and proactive activity. Reactive time refers to the time spent responding to citizen calls for service, while proactive time includes officer-initiated activity or uncommitted patrol time. The audit found that the Patrol position reductions have had limited effect on the operational measures that were previously recorded by CPSM. Response times for high priority calls showed no significant change. Average response times for priority 0, 1 and 2 calls increased only slightly, from 6.1 to 6.18 minutes. Average occupied time per call is now slightly higher than reported in the CPSM study. For citizen-generated calls for service, average occupied time increased from approximately 43.8 to about 49 minutes. For officer-initiated calls, average occupied time increased only slightly from 27.9 to 28.6 minutes per call. Fewer patrol units are responding to calls than previously reported. The average number of units responding to citizen-generated calls for services is 1.7, a little lower than the 1.9 average reported for FY 2014/15.

With 13 fewer available officers, patrol units are spending more of their time on reactive calls than previously. However, other Uniformed Services specialty units, such as Bike, Motor and DUI, supplement Patrol's reduced proactive time.

In addition, as a result of working with the CAD data for the analysis, auditors recommended that the department develop procedures for any testing in their live system, such as requiring test entries to be consistently identified, monitored and removed, if possible. As well, the department's internal response time report should be

evaluated for consistency with dispatch practices and response time objectives. In its management action plan, the department agreed with the audit recommendations.

Councilwoman Littlefield commented that it was a good analysis for comparison to CPSM and she agreed with the audit recommendations. She asked Police Chief Alan Rodbell whether there is an increase in risk to the officers on the calls with fewer patrol officers. Chief Rodbell said there is no increased risk. The workload analysis provides the number of officers needed to deal with the workload. Other circumstances include making sure all beats are covered and that adequate backup is present. Certain areas such as Downtown require additional resources, but PD balances all of that and he feels comfortable with the system they are using to make it as safe as possible. In response to a question from Councilwoman Littlefield, Chief Rodbell stated that he agrees with the audit recommendations.

Councilmember Korte asked whether this has impacted community policing. Chief Rodbell said it has not, and that the department feels it has established the appropriate balance. He stated that the time officers spend on calls is also part of community policing time. Chief Rodbell also believes that officers are spending an adequate amount of time performing community outreach and building relationships with the public.

5. Discussion and Possible Direction to Staff Regarding Audit No. 1711, FY 2016/17 Annual Follow Up on Status of Audit Recommendations

Ms. Davis said that the FY 2016/17 follow up status of audit recommendations includes the auditor-determined status of more than 300 audit recommendations and audits issued since July 2013. Overall, auditors concluded that approximately 86 percent of these past audit recommendations have been substantially addressed, with their status noted as implemented, in progress or partially implemented. Since this Audit Committee-requested program started, management action on audit recommendations has increased by nine percent from about 77 percent in the first follow-up report issued in September 2009. In addition, audits conducted during FY 2016/17 have identified quantifiable potential cost savings, revenues or other financial value totaling approximately \$1.9 million. They have also identified process and control improvements which are not as easily measured in areas such as software acquisition and implementation, contract administration and program operations.

Chair Klapp commented that good progress is being made. Councilwoman Littlefield asked about any particular areas of concern. Ms. Walker said that usually the audit recommendations are not just a matter of fixing a financial statement or other simple exercise. Instead, it usually is a matter of the audited area reviewing their processes and coming up with a way to better handle the issue. The follow-up program reveals that generally the recommendations that are going to be implemented happen within the first two-year window. Quite often, the explanation for not implementing a recommendation is that the changes will require a new information system or other significant change. Ms. Walker has been meeting regularly with the new City Manager to discuss the status of audits and recommendations, and this process will continue.

6. Discussion and Possible Direction to Staff Regarding Audit No. 1712, FY 2016/17 Annual Integrity Line Report

Ms. Walker said there are very few calls on the Integrity Line, noting that progress can be made to help more City employees become aware of it. In response to a question from Chair Klapp, Ms. Walker confirmed that it was publicized through the City's internal newsletter, but the Integrity Line is not regularly highlighted. It is also mentioned in the City's Auditor's office video for new employee orientation. When the Integrity Line first started, the Office of Communications helped by sending out information updates. This year, Ms. Walker presented during the leadership training for City supervisory or management level employees. She added that of the six calls received during FY 2016/17, the majority involved redirecting the call information to the correct department. For example, a couple of calls should have gone to the Police department and the information was rerouted appropriately. Calls related to City vehicle driving concerns were referred to the City Manager's office.

However, there were a couple of calls regarding employee behavior that auditors looked into. It was reported that an employee who was supposed to be interacting with the public was instead reading a newspaper. Audit staff informally observed several times and confirmed the allegation. Then the issue was referred to the division director, who promptly addressed the matter. Ms. Walker said she will continue to look for ways to get the word out on the availability of the Integrity Line.

Chair Klapp noted that it may be a positive situation if the line is available and yet there are so few calls.

7. Discussion Regarding Status of FY 2016/17 Audit Plan

Ms. Walker said that two audits that were on the FY 2016/17 Audit Plan have not been finished. The McDowell Mountain Golf Course Lease and the Capital Project Overhead Charges audits will be completed in the upcoming fiscal year. Thirteen reports were completed in FY 2016/17.

8. Discussion and Request for Approval of Proposed FY 2017/18 Audit Plan

Ms. Walker said the current list is basically the same as the list that was discussed during the meeting in May. There is a slight modification to combine the WestWorld marketing and concession contracts topics into one audit. If there are a large number of concession contracts, a sample may be selected for evaluation. Also, a contingency section was added for the proposed plan to include two items with Audit Committee interest - Police special revenues and fire marshal inspections. The only other adjustment was moving the Parks and Recreation Commission sunset review from August to September because no audits will be ready for an August meeting.

Councilwoman Littlefield asked whether the audit plan included another audit that had been previously requested. Ms. Walker said that the City Manager had asked that the City Auditor's office take a look at small tools expenses. Ms. Walker combined this with other categories, such as office supplies, into the miscellaneous expenses audit. The

other requested audit related to the recycling contract was not included on the audit plan. Since this contract did not include an audit clause, the City Auditor would not be able to access complete detailed records needed to conduct an audit. Instead the Public Works Director will review a spreadsheet of detailed charges that he asked the contractor to submit to him.

COUNCILMEMBER KORTE MOVED TO APPROVE THE FY 2017/18 AUDIT PLAN AS PRESENTED. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

9. Discussion and Possible Direction to Staff Regarding Agenda Items for the Next Audit Committee Meeting (September 18, 2017)

Ms. Walker noted that the next scheduled meeting, September 18, will include the Parks and Recreation Commission sunset review, the McDowell Mountain Golf Course Lease audit, the Capital Project Overhead Charges audit as well as a TPRO update and status of the audit plan.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 4:33 p.m.

SUBMITTED BY:

eScribers, LLC