

**APPROVED MINUTES
APPROVED ON 5/21/2018**



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

Monday, March 19, 2018

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

REGULAR MEETING

PRESENT: Suzanne Klapp, Chair
Virginia Korte, Vice Mayor
Kathy Littlefield, Councilwoman

STAFF: Sharron Walker, City Auditor
Brent Stockwell, Assistant City Manager
Paul Christiansen, Senior Auditor
Brad Hubert, Senior Auditor
Kyla Anderson, Senior Auditor

GUESTS: Sonnie Kirtley, Coalition of Greater Scottsdale

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, January 22, 2018

VICE MAYOR KORTE MOVED TO APPROVE THE MINUTES OF THE JANUARY 22, 2018 REGULAR MEETING AS PRESENTED. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

2. Discussion and Possible Direction to Staff Regarding Audit No. 1802, E-Verify Compliance

Brad Hubert, Senior Auditor, explained that since 2010, the State requires Arizona government agencies to audit their contractors and subcontractors to ensure they are using the Federal E-Verify system to confirm employment eligibility. The most recent audit for FY 2016/17 was completed. Auditors found that the selected City contractors and subcontractors are generally using the E-Verify program for workers on City of Scottsdale contracts. The audit included six City contractors and five of their subcontractors for testing. Auditors randomly selected 40 employees who were hired after the State requirement went into effect. The review found that each selected contractor and subcontractor provided the requested documentation for the selected employees. However the E-Verify documentation from one of the contractors and one of the subcontractors (seven employees) was dated after the audit request, rather than when they first hired the employees.

Councilwoman Littlefield asked whether there would be an issue in terms of the City contracting with companies who were shown to have produced the documentation after the request for verification. Sharron Walker, City Auditor, stated that the contractors would be likely to perform the verifications in a timely matter going forward, since they had been alerted via the audit to the requirements. In cases where a contractor refuses to provide the verifications during the audit, the purchasing director has advised them that they must provide the verification or face contract termination.

3. Discussion and Possible Direction to Staff Regarding Audit No. 1805, Miscellaneous Expenses

Paul Christiansen, Senior Auditor, stated that the focus of the audit was on small tools and equipment and office supply accounts. In FY 2016/17, small tools and equipment expenses totaled \$500,000 and office supplies totaled \$400,000. The audit found that small tools and equipment purchases can be better managed. Of the items reviewed, 59 percent were not labeled as City of Scottsdale property. A number of high-risk items, which are those more susceptible to loss, were not being inventoried by departments. An administrative regulation requires departments to inventory the items, but most employees were not aware of the requirement, primarily because the AR is titled Capital Assets and the items reviewed for the audit are non-capital assets. Also, 20 percent of items in small tools and equipment did not belong there and were more suited to other account codes. The audit recommended that the inventory requirement for high-risk small tools and equipment items move to a more appropriate administrative regulation. The audit recommended that direction be provided to the departments to label items as City of Scottsdale property. The audit also recommended that guidance be given to help the

departments understand where things should be coded, i.e., commodities, equipment and capital items.

In terms of office supplies, there was no evidence that the purchasing department had fully evaluated the contract with Office Depot. Eighty percent of office supply purchases are through Office Depot. Also there was no monitoring of contract pricing. There were differences in per-employee costs between various departments that suggest the need for further analysis. Further, although over \$100,000 is spent annually through Amazon, the available free business account options have not been utilized. The audit recommended that the Purchasing Department analyze the office supply contract to evaluate whether it is the best option for the City. Also, analysis of quarterly reports and compliance reports and spot checks of individual prices were recommended. The audit also recommended looking at per-employee costs, primarily through the budget process, and looking into the Amazon business account. Overall, management agreed with the findings and planned implementation by the end of September.

Chair Klapp noted that Amazon is very aggressive in pricing for these type items and a comparison with Office Depot's prices would ensure that the City is receiving the best rates. Committee members indicated support for pursuing the Amazon business account and Prime membership options. Chair Klapp also noted it is sometimes difficult to decide which category to put purchases in and she saw that the Treasurer's Office agreed with providing more guidance.

Councilwoman Littlefield stated she had some concerns regarding the 20 percent of items that were incorrectly classified. This can overweight one category over another. If this is being done throughout the City, this could add up to significant changes in budget items. She particularly likes the example of account classification guidance as a simple, concrete chart and would like to see this done across the City to provide uniformity. She also likes the recommendation of tagging small tools since they can get lost.

Vice Mayor Korte asked about involvement with the report. Brent Stockwell, Assistant City Manager said that he coordinated the response, as it involves the City Treasurer's Accounting and Budget departments, the Purchasing Department and Information Technology. Everyone worked together and coordinated the response through his office. Vice Mayor Korte asked whether Purchasing is being moved to the Treasurer's Office. Mr. Stockwell confirmed that Purchasing will be under the City Treasurer's Office for the new fiscal year.

Chair Klapp said that one of the most costly items is toner. She suggested sending a notice out to stop purchasing toner, as there is a contract that provides toner. Mr. Stockwell stated that the difference is between a personal printer on a desktop and the copiers in a shared area. The toner purchases under contract are for the City copiers, not for the personal printers. Mr. Stockwell discussed efforts to reduce the number of personal printers and commented on the challenge of City copiers being under a five-year contract. The City has 73 occupied buildings and some do not warrant a shared copier and instead use personal printers. Mr. Stockwell also commented that toner is prohibitively expensive and efforts will continue to reduce toner purchases where possible.

4. Status update regarding Audit No. 1901, FY 2016/17 External Financial Audit

Kyla Anderson, Senior Auditor, stated that the final steps of the financial audit are complete. This agenda item includes the external auditor's opinion on the Annual Expenditure Limitation Report, which goes to the Auditor General, as well as the opinion and certification of the federal financial data schedule and the REAC (Housing & Urban Development requirements) database. Ms. Walker noted that this agenda item addresses the Committee's request to be updated when the financial audit items pending in November were completed.

5. Discussion of Preliminary FY 2018/19 Audit Plan/Topics

Ms. Walker reviewed the preliminary plan's recurring audit topics:

- FY 2017/18 Financial and Compliance Audit
- Follow up on status of audit recommendations
- Integrity Line
- E-Verify
- Biennial certified audit of development fees
- Information Technology
- Construction contract
- Cash handling

The risk assessment method ranks areas of the City on several different factors, which are summarized: overall risk result, number of years since last audit, number of high areas and potential audit topics. The five major risk rating categories are significance, change, operations, reporting factors and mitigating factors. Several topics were identified as potential audit topics. For example, for selected expense categories citywide, auditors may identify two to three smaller expense categories that have not yet been looked at, such as was done with small tools and equipment and office supplies. Another potential topic is WestWorld, which is a large operation with several risk areas so it ends up at the top of the ratings. A potential audit topic could be contract administration but excluding the marketing and concession agreement that was recently audited.

Ms. Walker noted that two contingency audits that were not addressed in the current year are also possibilities for audits for the upcoming plan. These include: Fire Marshall inspections and Police special revenues. Chair Klapp suggested that these contingency audits be moved to the top of the list for upcoming audits.

This year, the Audit Department participated in the Scottsdale Insider Program. During Audit's hour-long portion of the program, auditors included an exercise of having participants brainstorm audit ideas and questions to be addressed. Chair Klapp asked Ms. Walker to forward the list of suggestions to Committee members.

Councilwoman Littlefield stated that it has been five years since Aviation was audited, however it is also in the midst of extensive construction projects. It may be better to conduct the audit when this work is completed.

6. Discussion and Possible Direction to Staff Regarding Status of FY 2017/18 Audit Plan

Ms. Walker addressed the list, noting that Item 28, City Auditor's External Quality Control Review, will be starting in May. In terms of status, the department is doing well keeping on track with the scheduled audits.

7. Discussion and Possible Direction to Staff Regarding Agenda Items for Next Audit Committee Meeting.

Ms. Walker stated that at the next meeting, there will be a representative from Heinfeld Meech present to speak with the Audit Committee. They will be kicking off the next financial audit in May.

Ms. Walker noted that the Committee is reaching the end of their three-year sunset review schedule. She will be bringing this back for discussion at the next meeting.

Chair Klapp stated that the next meeting is May 21st, followed by a meeting on June 25th. There will be no meeting in April.

Public Comment

Sonnie Kirtley, Coalition of Greater Scottsdale, indicated she wanted to address the audit that was item 3. She questioned what type of labels are used on non-capital equipment, such as small tools. Ms. Kirtley shared her experience while working at the school district and commented that a prefix denoting the department the item belongs to may be helpful. Ms. Walker responded that the methods vary by department, with some like the fire stations including the location. The dollar value in the small tools and equipment category is not high enough for the items to be recorded on the fixed asset list, but there is a requirement that high-risk items be inventoried. The regulation defines that high risk is susceptible to personal use or loss.

Adjournment

The meeting adjourned at 4:40 p.m.

SUBMITTED BY:

eScribers, LLC