

APPROVED MINUTES APPROVED ON 12/08/2020



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING**

**Monday, November 9, 2020
Meeting Held Electronically**

PRESENT: Kathy Littlefield, Chair
Virginia Korte, Councilmember
Solange Whitehead, Vice Mayor

STAFF: Sharron Walker, City Auditor
Brad Hubert, Senior Auditor
Shelby Trimaloff, Executive Assistant to City Auditor
Bill Murphy, Assistant City Manager
Brent Stockwell, Assistant City Manager
Dan Worth, Public Works Director

GUESTS: Brittney Williams, Heinfeld Meech

CALL TO ORDER

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

PUBLIC COMMENT

There were no written comments received and no members of the public had requested to speak.

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, October 19, 2020

Chair Littlefield called for comments/changes to the minutes.

VICE MAYOR WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE OCTOBER 19, 2020 REGULAR MEETING AS PRESENTED. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

2. Discussion and Possible Direction to Staff Regarding Report No. 2101, FY 2019/20 Financial and Compliance Audit

Sharron Walker, City Auditor, stated that the City Charter requires the Council to designate the certified public accountant to perform an independent audit of the City's annual financial statement. The charter further states that the reports are submitted to the Council and are public records. Several years ago, the City Council assigned responsibility for the financial audit to the City Auditor. The Auditor's Office issues the RFP and selects the firm to conduct the audit. Heinfeld Meech was selected to complete the audit. Brittney Williams joined the March 2020 Audit Committee meeting to discuss the scope of the work to be conducted for this year's audit and at this meeting, she will present the audit results. The City Treasurer's Office is scheduled to present the financial results at the Council's November 30 meeting.

Ms. Williams stated that the audit verifies management's representations regarding finance. The opinion states that the financial statements have not been materially misstated, and that demonstrates stewardship and accountability to various governing bodies and other users of the financial statements. The audit firm also reviews compliance with federal and state laws and regulations. This helps the governing body and the Audit Committee to ensure that management has fulfilled its responsibilities for the financial statements and the laws and regulations. The audit firm follows auditing standards that are set by the AICPA and by the U.S. General Accounting Office (GAO). This allows the firm to issue the report on internal control and compliance for all five CFDs, the SPA, the MPC and the City. The firm is also required to follow standards by the Office of Management and Budget (OMB) related to federal programs and awards. All firm audit staff are required to have single audit advanced certification through the AICPA. They also follow the Auditor General for the state of Arizona for state-specific reports like the expenditure limitation report and the Highway User Revenue Fund report.

The audit process this year included fieldwork and completion of all five CFDs, MPC and SPA in August, with the reports issued on October 5th, ahead of the audit timeline. Fieldwork was performed for the Comprehensive Annual Financial Report (CAFR) in July through September with two final fieldwork weeks in September. The audit report was issued on October 16th. Various audit procedures were performed remotely between the site visits. Working remotely was no problem because the City is well-equipped for that, and the firm's auditors were able to look at everything electronically and follow their

procedures with ease. Additional reports will be issued in the February and March time frame to meet applicable deadlines.

The financial statements received a clean opinion in the auditor's report. The report on internal controls for audits under government auditing standards was issued for the CAFR and the five CFDs, MPC and SPA. The firm also issued the Highway User Revenue Fund (HURF) examination report on compliance with state statute. Ms. Williams commented that a few other items have not yet been issued. CARES funds were provided by the federal government in FY 2020, but the OMB has not released a compliance supplement. The compliance supplement, typically issued in early summer, provides guidance to auditors for auditing those funds.

As a result, the auditors are unable to test the City's CARES Act money until the OMB compliance supplement addendum is received. However, the Single Audit report is not due until March 31st. Other pending items include the expenditure limitation report (ELR) required by the state of Arizona as well as the HUD REAC reports, which are usually not completed until February anyway. Other important communications between the firm and management include the engagement letters at the beginning and the management representation letters at the end of the audit. These letters are attached to the communications to governance, which are required by auditing standards, for the CFDs, the SPA, the MPC and the City.

Chair Littlefield thanked Ms. Williams for her report. There were no questions for Ms. Williams. Councilmember Korte thanked the Heinfeld Meech auditors as well as the City Auditor and staff for overseeing the City's financials. Vice Mayor Whitehead and Chair Littlefield agreed. Ms. Walker commented that the Accounting department compiles the financial statements and disclosures that are audited, so credit goes to that department for its work.

VICE MAYOR WHITEHEAD MOVED TO RECOMMEND TO THE CITY COUNCIL TO ACCEPT THE FY 2019/20 FINANCIAL AUDIT AS SUBMITTED. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

3. Discussion and Possible Direction to Staff Regarding City Manager Review of Public Works Audits

Bill Murphy, Assistant City Manager, stated that his presentation was in follow up to the Audit Committee direction in September for the City Manager to review and report on the Public Work audits that have been completed over the last four to five years. Mr. Murphy has discussed with the City Manager the various audits and has provided a summary matrix of these audit findings and recommendations for the Audit Committee. He also met with Dan Worth, Public Works Director, to review each of the audits and receive an update. The Public Works Division handles a wide scope of responsibilities within the City, which includes the real estate and asset management team, facilities management, capital projects management, solid waste operations, fleet management, transportation and street operations. Each of these departments has completed audits within the last five-year window and has worked with audit staff to respond to findings while reviewing and completing suggested recommendations. The provided matrix shows the input from the

City Auditor. As noted in the various recommendations in these 15 particular audits, the role of Sharron and her staff is to look at the city's programs and services - our contracts, how they function, and areas where efficiencies can be found or suggestions of alternative deliveries that could be achieved.

Some recommendations still need time for completion and work continues on them. Eleven audits have been completed and the recommendations are being followed. In the past year, Mr. Worth has reorganized various departments as he has had a great deal of attrition throughout his division. This includes the solid waste director upgrade and consolidation of transportation and street operations under one director to create more efficiency, better communication and prioritization for traffic engineering operations planning throughout the City. The facilities management team also has a new director and some shift in management staff over the last year. The changes have strengthened the overall division.

Chair Littlefield thanked Mr. Murphy for his report. Vice Mayor Whitehead and Councilmember Korte had no questions or comments. Chair Littlefield noted that this review was requested unanimously by the Audit Committee because they all noticed a common thread running through most of the Public Works contractual audits. There appears to be a lack of guidelines and procedures that should be followed on each contract to ensure all required terms and conditions have been completed, documented and signed off on before final checks are issued to the contractors.

The goal is not to take umbrage with staff or any particular person, but to define and solve problems by putting in place workable solutions. The City and the Council need to have assurance that all contractual work along with related change orders for that work has been completed satisfactorily and that the required standards of a particular contract have been met before a final payment is made to the contractor. All paperwork to that effect needs to be completed and signed off by the responsible parties and become part of the permanent file for each contract. Final payment should not be made until each file is completed and approved, including sign-off by the contract administrator.

All City departments, including those under Public Works, need to adhere to these standards. Managers need to inspect and sign off personally on their parts of the contract to verify that all work is completed within the contractual standards. Personal managerial responsibility needs to be taken as a part of all authorized City contracts. This may need to be taken up as a Citywide policy, not just a departmental policy, and written with the help of the Auditor's staff.

Mr. Murphy agreed that these are all good points. The continuing theme is a directive to look at contract administration of all contracts. The City Manager and Assistant City Managers are planning staff training. There will be continued discussion and implementation in the coming year. Chair Littlefield suggested keeping the City Auditor in the loop on this as well.

VICE MAYOR WHITEHEAD MOVED TO ACCEPT MR. MURPHY'S REPORT. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

4. City Auditor Updates, Including Status of the FY 2020/21 Audit Plan and Tentative Meeting Dates for Calendar Year 2021

Ms. Walker stated that the audit plan status reflects a usual trend line. The financial compliance audit is noted as only partially completed because of the federal compliance piece still pending. The Audit Committee has previously requested that audit staff bring the additional financial reports to the Committee as they are completed. The remaining reports will include the single audit federal compliance piece as well as state expenditure limitation report and the HUD REAC certifications. A tentative meeting schedule for next year was provided to Committee members in the agenda attachment.

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

Ms. Walker stated that the National Transit Data Financial Data Review report will be discussed at the next meeting in December, adding that the December meeting will likely be very brief. The agenda will also include sunset reviews for the Development Review Board and Planning Commission. But it is uncertain whether the Code Enforcement Operations audit listed on the draft agenda will be finalized in time for the December meeting.

Adjournment

With no further business to discuss, being duly moved by Vice Mayor Whitehead and seconded by Councilmember Korte, the meeting adjourned at 4:33 p.m.

SUBMITTED BY:

eScribers, LLC