

**APPROVED ON 01/24/2022**



**CITY OF SCOTTSDALE  
AUDIT COMMITTEE  
REGULAR MEETING MINUTES**

**Community Design Studio - Nave  
7506 E. Indian School Road  
Scottsdale, Arizona 85251**

**Monday, November 15, 2021**

**PRESENT:** Kathy Littlefield, Chair  
Tom Durham, Councilmember

**ABSENT:** Solange Whitehead, Councilwoman

**STAFF:** Sharron Walker, City Auditor  
Brad Hubert, Senior Auditor  
Shelby Trimaloff, Executive Asst. to City Auditor  
Tim Conner, Manager, Office of Environmental Initiatives  
Anna Henthorn, Accounting Director  
Sara Delgado, Accounting Manager

**GUESTS:** Brittney Williams, Heinfeld Meech

**CALL TO ORDER**

The meeting was called to order at 4:01 p.m. A formal roll call confirmed the presence of Committee Members as noted above.

**PUBLIC COMMENT**

No written comments were submitted, and no members of the public had requested to speak.

## **REGULAR AGENDA**

### **1. Approval of Minutes, Regular Meeting, August 30, 2021**

Chair Littlefield called for approval of the minutes.

COUNCILMEMBER DURHAM MOVED TO APPROVE THE MINUTES OF THE AUGUST 30, 2021 REGULAR MEETING AS PRESENTED. CHAIR LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED 2-0 WITH CHAIR LITTLEFIELD AND COUNCILMEMBER DURHAM VOTING IN THE AFFIRMATIVE.

### **2. Discussion and possible direction to staff regarding Environmental Advisory Commission Sunset Review**

Brad Hubert, Senior Auditor, noted that this is the first time the Environmental Advisory Commission has come up for a sunset review under its current name. It was previously known as the Environmental Quality Advisory Board. Its purpose is to advise City Council by making recommendations on issues relating to the preservation and enhancement of the environment in the City of Scottsdale. As stated in Resolution No. 8823, the Audit Committee is to evaluate whether the board or commission being reviewed is serving its intended purpose; whether the board or commission 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 board or commission.

Tim Conner, Manager, Office of Environmental Initiatives, was present, representing the Commission. Mr. Conner stated that the Commission and he support continuation of the Commission's mission. Chair Littlefield commented that the Commission is doing a good job and is serving its intended purpose. She suggested the Commission be watchful for any news regarding channeling of water to western states from the eastern rivers. Mr. Conner noted that the Commission is very interested in water supply, especially with the drought.

COUNCILMEMBER DURHAM MOVED TO RECOMMEND TO THE CITY COUNCIL TO CONTINUE THE ENVIRONMENTAL ADVISORY COMMISSION. CHAIR LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED 2-0 WITH CHAIR LITTLEFIELD AND COUNCILMEMBER DURHAM VOTING IN THE AFFIRMATIVE.

### **3. Discussion and possible direction to staff regarding Report No. 2201 FY 2020/21 Financial and Compliance Audit**

Sharron Walker, City Auditor, introduced this audit noting that a couple Accounting department staff were present at the meeting, and that department does the "heavy lifting" with the accounting and financial report preparation. The City Auditor's Office manages the audit contract and selected Heinfeld Meech to conduct the audit. Each year, Heinfeld Meech presents the audit results to the Audit Committee and Ms. Walker presents the

audit to the City Council. This year, however, there's new state legislation requiring that the CPA that conducts the audit also present the results to the City Council.

Brittney Williams, Heinfeld Meech, commented that the audit results in 18 different reports as listed on the slide but they are somewhat similar. They give an opinion on the financial statements of the City and the seven component units, which consist of the five CFDs, the Scottsdale Preserve Authority and the Municipal Property Corporation. This year, they gave an unmodified, or clean, opinion on all of them. While these reports are a bit longer this year due to implementing new auditing standards, the content is generally the same. Also, the City has implemented new reporting standards, including subscription-based IT arrangements. Accounting implemented the standard early and did a great job. The reports also go into what management's responsibilities are and what the auditor's responsibilities are, such as exercising professional judgment and maintaining professional skepticism. As well, it notes any audit findings or internal control matters the audit identified. Ms. Williams stated they are also required to issue a letter to governance that addresses matters such as estimates, any difficulties encountered in the audit, or disagreements with management. This letter shows there were no issues. It also mentions additional reports to be issued within 60 days, including the single audit reporting package and the independent accountant's report on the Highway User Revenue Fund (HURF), which are included. Two other reports are still coming, including HUD financial data schedules and the expenditure limitation report. At the end of each communication to governance is the certified fraud examiner fraud prevention checklist.

Councilmember Durham asked for clarification on the report components. Ms. Williams referenced the financial reports for the City and the seven CFDs, which result in eight auditor reports and eight communication to governance reports. They have the same general appearance, with a clean opinion and no issues.

Ms. Walker, added that clicking on the individual report lines listed on the one-page agenda item navigates to these individual reports. In response to Councilmember Durham's inquiry, Ms. Walker commented that the City's financial statements are produced by the City's Accounting department and the auditor's report will be in each of these. Councilmember Durham commented that he noticed the City won report awards in the past, and he thinks the report is well written and well organized.

Ms. Williams continued with her presentation, noting the Highway User Revenue Fund annual compliance report is not an auditor's report, but an accountant's report, that they issue to state that the highway revenue funds have been spent in accordance with state statute. The last one, the single audit reporting package, addresses federal awards received and spent by the City. This includes a report on internal controls, and a second report detailing every federal program looked at this year. The City spent a total of \$27.6 million in federal funds this year. Page 10 of the single audit reporting package provides a synopsis. They audited three major programs: Airport Improvement Program, Federal Transit Cluster and Coronavirus Relief Fund. There was a minor finding for internal controls included in the report along with management's plan to correct it.

Ms. Williams commented that they did new data analytics during the audit this year. For example, they did fuzzy matching for addresses, email addresses, and phone numbers between the employee and vendor files. They also did a new analysis of capital assets looking for negative net asset values, items that are being properly depreciated, those that

are below the capitalization limit but may be on the list. The exceptions that were noted were so little, but they shared the information with management.

CHAIR LITTLEFIELD MOVED TO RECOMMEND TO THE CITY COUNCIL TO ACCEPT THE FY 2020/21 FINANCIAL AND COMPLIANCE AUDIT REPORTS AS SUBMITTED. COUNCILMEMBER DURHAM SECONDED THE MOTION, WHICH CARRIED 2-0 WITH CHAIR LITTLEFIELD AND COUNCILMEMBER DURHAM VOTING IN THE AFFIRMATIVE.

#### **4. Discussion regarding completion of Audit No. 2116 SUSD Hohokam Bond Project**

Ms. Walker stated all of the other audits that her office presents to the Audit Committee are audits of City departments where the Council has more direct input. This audit is for the School District's Audit Committee and Governing Board to resolve, but she is presenting the report so that it can be accepted as part of the approved Audit Plan.

The Intergovernmental Agreement (IGA) for this audit was approved in February 2021 by the school district governing board and in March 2021 by City Council. On an ongoing basis, audit staff was sharing its observations with the school district staff during the audit, to allow them to apply the improvements to new construction projects. A draft report was sent to Dr. Menzel in early September, followed by a meeting in late September. The audit objective was to review the effectiveness of contract administration, including procurement, project management, contract compliance and cost effectiveness. While the school construction was essentially completed and the District started using the school in late June/early July, the project records were not finalized and the project was not considered completely closed at the end of August. There were remaining punch list items and contractor/subcontractor pay applications were not expected to be finalized until September or October. For this reason, the auditors list cutoff dates for different types of information presented in the audit report.

The audit identified four areas of recommendation relating to construction, design and documentation standards and methods. The first two relate to the construction contract.

- There should be a closer review of CMAR subcontractor selection, the proposed guaranteed maximum price contract costs and contract time.
- Establishing contract management processes can allow staff to be more efficient and better monitor construction costs.
- Next, related to the design contract, design services could be better managed with more specific terms and pricing.
- And overall, there were documentation challenges, so the audit recommended formalizing recordkeeping methods and standards for documenting the procurement phase, design and construction.

The District agreed with the recommendations and provided an action plan, which is included in the report. Because they were provided with early observations, the District staff was able to implement some recommendations during the course of the audit. The City Auditor and staff presented the audit report to the District's new Audit Committee in October and to the full Governing Board on October 26th. Ms. Walker noted that the IGA

also provides that her office will assist the District as requested during their audit resolution process.

In response to Councilmember Durham's question, Ms. Walker responded that she provided information to the School District on the structure of the City's Audit Committee and how it works. They took what they liked of that and developed their own approach, which is very similar to the City's. In response to Councilmember Durham's question, Ms. Walker explained that the Mohave contracts are established by the Mohave Education Services District, a separate entity, and they are available to school districts to use to procure goods or services. Similarly, the City uses a lot of different cooperatives and other cities' contracts when staff believes the value is good enough that the City doesn't need to go through its own procurement process.

Councilmember Durham asked for clarification that the City's Audit Committee approving the audit report was just because it was on the Audit Plan and not because the City has any responsibility for the audit. Ms. Walker agreed, the District's Audit Committee and Governing Board would retain oversight of District staff's resolution of the audit.

COUNCILMEMBER DURHAM MOVED TO ACCEPT AUDIT NO. 2116, SUSD HOHOKAM BOND PROJECT. CHAIR LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED 2-0 WITH CHAIR LITTLEFIELD AND COUNCILMEMBER DURHAM VOTING IN THE AFFIRMATIVE.

#### **5. Discussion and possible direction to staff regarding Report No. 2105, External Quality Control Review of the City Auditor's Office**

Mr. Hubert stated the requirement to follow government auditing standards is incorporated into the City Charter and the Code for the City Auditor. As part of these standards, they are required to obtain an external quality control review (or peer review) every three years. The peer review is performed by auditors independent of the City Auditor's Office. This year, the Association of Local Government Auditors assigned a team consisting of an experienced auditor from the City of Portland, Oregon, and one from College Station, Texas, to complete the review. Due to COVID, the peer review was completed virtually for the first time ever. As part of the process, the peer review team reviewed the City Auditor's quality control system, which is the documented policies and procedures, to assess whether they are suitably designed to meet government auditing standards.

The team then interviewed individual City auditors regarding their knowledge of these policies and procedures and how audits are conducted. They also selected several audits to review the documentation to determine whether the City Auditor's office is following its policies and procedures and government auditing standards in conducting audits and issuing reports. The team concluded that the Scottsdale City Auditor's office is in full compliance with government auditing standards. They noted that the office excels in the areas of quality control, risk and internal control assessment and audit work productivity.

Chair Littlefield asked whether the review team made any suggestions during the review. Ms. Walker stated that there was an informal observation about certain non-audit work. Each audit office typically has some non-audit work that is slightly different. It took the review team some time to understand these, such as the Taxpayer Problem Resolution

Officer duties, which have actually discontinued. They suggested verbally that it would be helpful to the review teams to have more explanations included in the policies and procedures.

In response to a question from Councilmember Durham, Ms. Walker stated that the review began on a Monday and was completed on Friday. However, in addition to this week, the City Auditor's office also provided a copy of the policies and procedures manual and completed some required questionnaires for them to review in advance.

CHAIR LITTLEFIELD MOVED TO ACCEPT REPORT NO 2105, EXTERNAL QUALITY CONTROL REVIEW OF THE CITY AUDITOR'S OFFICE, AS SUBMITTED. COUNCILMEMBER DURHAM SECONDED THE MOTION, WHICH CARRIED 2-0 WITH CHAIR LITTLEFIELD AND COUNCILMEMBER DURHAM VOTING IN THE AFFIRMATIVE.

#### **6. Discussion and Possible Direction to Staff Regarding 1st Quarter FY 2021/22 Follow Up on Status of Audit Recommendations**

Ms. Walker stated that to date, 73 percent of audit recommendations have been implemented or partly implemented with 26 percent in progress. These results are similar to trends of the three previous fiscal years. Items not implemented for the quarter are at 1.3 percent, which falls within the range of the last three fiscal years. Overall, City departments are making good progress in terms of implementing audit recommendations.

Chair Littlefield inquired as to concerns regarding the status of any audits. Ms. Walker stated that there are a couple of audit reports where some recommendations have been in progress for some time, such as the ActiveNet audit and the Infrastructure Condition Assessment audit. Auditors assigned to these audits are asking to clarify and answer questions where needed.

#### **7. City Auditor updates, including status of FY 2021/22 Audit Plan**

- Status of FY 2021 Audit Plan
- Tentative 2022 Audit Committee meeting dates

Ms. Walker stated that they are slightly behind the Audit Plan at this point, but actually falling within trend in terms of how many audits are typically completed at this time of year. A couple audits have been delayed by waiting for external parties to provide records.

Ms. Walker provided the 2022 Audit Committee meeting schedule and asked that Committee members let her know of any conflicts with meeting dates so that they can be adjusted. Chair Littlefield asked that Ms. Walker also provide these dates to Councilwoman Whitehead to check her schedule.

**8. Discussion and possible direction to staff regarding potential agenda items for next Audit Committee meeting**

Ms. Walker noted that a December meeting will be needed since they expect to wrap up a couple audits. The Destination Marketing Contract audit is tentatively on the City Council's January 11th meeting, and should be ready for the Audit Committee's December meeting. The E-Verify Compliance audit will also potentially be ready for discussion at that time.

Councilmember Durham inquired about a note in the financial audit regarding a sales tax abatement agreement with auto dealers that has not yet gone into effect. Ms. Walker stated that she was not immediately familiar with this note, but she will take a closer look and touch base with him about it later.

**Adjournment**

With no further business to discuss, being duly moved by Councilmember Durham and seconded by Chair Littlefield, the meeting adjourned at 4:57 p.m.

SUBMITTED BY:

eScribers, LLC