

**APPROVED MINUTES
APPROVED ON 6/25/2018**



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

Monday, May 21, 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
Lai Cluff, Senior Auditor
Cathleen Davis, Senior Auditor
Brad Hubert, Senior Auditor
Dan Worth, Public Works Director
Erin Perreault, Long Range Planning
Adam Yaron, Project Coordination Liaison
Randy Grant, Planning & Development Services Director
Randy Ghezzi, Director, Street Operations
Phillip Verver, Financial Services
Hank Dabibi, Financial Services
Tim Curtis, Director, Current Planning
Teri Gleason, Planning & Development Services

GUESTS: Sandra Schenkat
Patricia Badenoch
Jill Shaw, Heinfeld Meech

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, March 19, 2018

COUNCILWOMAN LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE MARCH 19, 2018 REGULAR MEETING AS PRESENTED. VICE MAYOR KORTE SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

Public Comment

Chair Klapp invited Sandra Schenkat to provide her public comments at this time, rather than having to wait until the end of the meeting. Ms. Schenkat expressed concerns about the salary of the executive director of Experience Scottsdale, which is the City's destination marketing contractor. Based on salaries for cities with comparable revenues, she questioned the support for the salary amount and requested an audit review.

2. Discussion and Possible Direction to Staff Regarding Neighborhood Advisory Commission Sunset Review

Cathleen Davis, Senior Auditor, stated that the Neighborhood Advisory Commission's purpose is to advise and make recommendations to the City Council on policies, plans, strategies and programs for the preservation, improvement and revitalization of Scottsdale's neighborhoods. 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.

Vice Mayor Korte asked for comments from staff on the Commission's purpose. She had recently had occasion to speak with a Commission member, who commented that the Commission "just doesn't do much." Adam Yaron, Project Coordination Liaison, stated that the Commission was realigned within Long Range Planning last June. Much of the work prior to the changeover was based on lackluster goodwill projects throughout the community. The change, as guided by the department director, has focused the Commission in a different direction in order to implement neighborhood planning as a third level of planning within the department's hierarchy. Some elements of the Commission's work plan will continue to include goodwill efforts. Most recently, the Commission provided recommendations to City Council on a new City flag. Beyond this, the Commission will potentially guide other programs, such as CIP projects in local neighborhoods.

Randy Grant, Planning & Development Services Director commented that neighborhood planning has not really been done. They have not capitalized on available resources in the past, but he believes they have the right people to make this work. In many instances, the Commission would not meet because there was no business to consider. The

department's goal is to bring more relevant issues for discussion and to make the Commission more relevant and valuable to the Council.

Councilwoman Littlefield inquired as to the timeline for the flag submittals. Mr. Yaron said final recommendations should be ready by this Wednesday. It will likely be presented to City Council shortly after Council resumes following its break.

Chair Klapp suggested including a statement in the bylaws regarding the transition/updated mission of the Commission which expresses its present purpose. She commended the move to incorporate planning into the mission. Vice Mayor Korte agreed, noting that there seems to be more pressure on neighborhoods, in maintaining and sustaining them the way the citizens want them to be. She has significant concerns about the impact of Airbnb and noise on neighborhoods at this time.

VICE MAYOR KORTE MOVED TO RECOMMEND TO CITY COUNCIL THE CONTINUANCE OF THE NEIGHBORHOOD ADVISORY COMMISSION. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

3. Discussion and Possible Direction to Staff Regarding Audit No. 1901, External Financial Audit

Sharron Walker, City Auditor, introduced Jill Shaw, Heinfeld Meech, who reviewed the timeline and scope for the audit process. The first onsite field work occurs in June, followed by visits in August and September once the numbers in the general ledger have been finalized. The financial portion of the audit wraps up in time for the November Council meeting. The scope and responsibilities are outlined in the engagement letter. The scope and timeline are identical to previous years. A financial statement audit of the City's records and internal controls is performed

The audit also includes single audit, which is necessary because the City spends more than \$750,000 in federal awards.

Auditors rotate which federal programs they examine year to year. This year, highway planning and construction will be evaluated as well as the airport improvement grant. The audit also includes financial statement audits of all five CFDs, SPA and MPC component units. They review a sampling of Highway User Revenue Fund (HURF) expenditures to ensure these monies are being spent in accordance with statute. An audit opinion is provided on the Annual Expenditure Limitation Report (AELR) to ensure that total City expenditures fall below statutory guidelines. They also review specific reporting to HUD in relation to grants the City receives. The financial statement portion of the audit will wrap up in November, with the AELR and HUD to follow in the January time frame.

In response to a question from Vice Mayor Korte, Ms. Shaw replied that this is the fourth year Heinfeld Meech has completed the audit.

There was consensus that no action was needed on this item.

4. Discussion and Possible Direction to Staff Regarding Audit No. 1809, Development Agreements

Brad Hubert, Senior Auditor, stated that the City enters into development agreements with property owners that allow them to obtain variances or exceptions to certain zoning requirements in exchange for providing public benefits, such as installing public art or infrastructure improvements. The objective in auditing the development agreements was to assess the management controls over the tracking and compliance with the special improvements agreed to for the variances. The review found that Planning and Development Services does not currently have formal procedures to track development agreements but relies on individual planners to monitor assigned agreements. As a result, some agreements have been missed or delayed. Some agreements include required payments from the developer to the City, however the amounts due were not tracked and accounts receivable were not established for those potential payments due. The database used to track plans, permits and payments did not have a specific field to identify items related to development agreements.

Zoning case stipulations provided to the City plan reviewers did not always include all development agreement requirements. Because development agreements can last for extended periods of time, the related records to those agreements should be identified and retained. Access to the department's database varied widely among staff members. It was recommended that Planning & Development Services develop and implement formal policies and procedures to more efficiently record and monitor all development agreement requirements and deadlines. It was also recommended that they work with the City Treasurer's Office to establish accounts receivable for any amounts due, in order to reduce the risk that those funds might not be collected. It was suggested that they define specific retention period requirements for development agreement records as well as develop policies and procedures to authorize access to the department's computer database system.

Planning & Development Services agreed with the recommendations and has been working to make substantial progress on the recommended improvements. Randy Grant, Planning & Development Services Director, said the department welcomes an outside set of eyes on the process. Coming out of the recession, the department had reduced staffing and increased workload. They did informally track development agreements, however these did not have their own identity and were incorporated into the rezonings that they occurred with. The department has implemented all the recommendations they committed to, including a new file type for development agreements. They will be tracked, just as a zoning case would be. The system has the ability to include milestones to avoid missing things. There will be quarterly meetings with Financial Services, Legal and Planning to monitor status.

Vice Mayor Korte noted that one of the Planning Commissioners has been talking about the lack of follow-up inspection, once a job is complete. She inquired whether this component is included in the plan. Mr. Grant stated that this morning, there was a meeting with Inspection Services. They will be reallocating one code enforcement position to Planning inspections.

VICE MAYOR KORTE MOVED TO ACCEPT AUDIT NO. 1809, DEVELOPMENT AGREEMENTS. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

5. Discussion and Possible Direction to Staff Regarding Audit No. 1803, Intelligent Transportation Systems (ITS)

Lai Cluff, Senior Auditor, stated that the ITS audit was performed to evaluate ITS general and application controls. ITS includes a variety of technologies to monitor, evaluate, operate and manage transportation systems. The City Auditor's Office contracted with Grant Thornton, LLP to perform the technical review. The audit noted that the Traffic Management Center (TMC), which manages ITS, is fairly mature in practice and can meet its day-to-day operational needs. However, risks surrounding ITS have not been adequately identified, evaluated and managed. Several areas in ITS governance and management could be improved. The TMC does not have a documented risk management process and it is not otherwise apparent that potential risks have been adequately assessed. The audit found that the TMC should take a more proactive role in managing security risks, including working with the City's central IT department to better define roles and responsibilities over security management. Stronger access controls are needed to protect TMC computers, servers and applications from unauthorized access. Business continuity and disaster recovery plans have not been established, however these are currently in process.

The audit also found that few policies and procedures have been formalized and that vendor service agreements have not been properly maintained and managed. Strategic planning and use of additional performance data may help ITS to effectively plan for future improvements.

Dan Worth, Public Works Director, commented that the audit reinforced several issues that were already being observed. They appreciate the second set of eyes reviewing the processes. For many years, even prior to his joining the City, the focus was really technology driven, investing in systems to build up the ITS system and the technology involved in the traffic control system City-wide. In the last couple of years, they have begun to focus on performance. They have completed a timing study (amount of time it takes to get from point A to B down a major corridor) and focused on improving this efficiency. Positive results have been achieved. That is just the beginning of what needs to be a strategic planning process. Other performance metrics need to be taken into account, as well as, other modes of transportation, pedestrian and bicycles. Also, different areas of the City may have other priorities besides travel time. Reducing delays and increasing safety should also be part of the strategic planning objectives. Many of the recommendations apply to more of a day-to-day category in terms of processes. Since they received the draft audit report, they have removed over 100 people from the physical access list to enter the TMC and are also addressing password access to systems.

Councilwoman Littlefield stated that the recommendations made by the auditors were very good and very complete. The biggest concern from the point of view of the overall City was a form of terrorism in terms of getting into the system, creating disruption, creating traffic accidents, hacking timing on lights and other issues.

Vice Mayor Korte inquired to any thread between ITS and the Transportation Commission in terms of oversight of some of the studies. Mr. Worth stated that department staff spent approximately three hours on Thursday evening with the Transportation Commission regarding the traffic signal system. They were very engaged and asked many probing

questions. The consultant in charge of the timing study was present to discuss the process in detail.

VICE MAYOR KORTE MOVED TO ACCEPT AUDIT NO. 1803, INTELLIGENT TRANSPORTATION SYSTEMS. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

6. Discussion and Possible Direction to Staff Regarding 3rd Quarter FY 2017/18 Follow Up on Status of Audit Recommendations

Ms. Walker reviewed the summary, noting that approximately 74 percent of audit recommendations have been implemented or partly implemented, 22 percent are in progress, with an overall 96 of audit recommendations where staff is demonstrating positive improvement. At this time last year, the total percentage was 98. Similarly, “not implemented” recommendations are about the same as they were for the same quarter a year ago. There are two recommendations in the “not applicable” category. In June, she will provide an annual report, which will include the status of all recommendations that have been followed up on this fiscal year.

Vice Mayor Korte asked how Ms. Walker feels about the status. Ms. Walker noted that sometimes recommendations address areas which are not just a matter of correcting paperwork. Some recommendations address processes, and a new administrative regulation may need to be drafted and staff informed and trained. Therefore, some recommendations take longer to implement, though others are simpler. Overall, the report represents a very positive status.

7. Informational Report Regarding 1st Quarter CY 2018 Taxpayer Problem Resolution Officer Report

Ms. Walker commented that this is just an informational report, as the status is pretty consistent. There were no questions.

8. Discussion and Possible Direction to Staff Regarding Proposed FY 2018/19 Through FY 2020/21 Sunset Review Schedule and Process

Ms. Walker stated that staff is just now finishing up the current three-year sunset review schedule. June will be the last for the three-year cycle. The agenda materials include the summary of the process that has been used and the proposed schedule. In response to a question from Chair Klapp, Ms. Walker confirmed that they are all in the same order as they were originally. She welcomed input on any desired changes to the process or a motion for the Committee’s approval. Chair Klapp asked whether Ms. Walker believes the process is working well. Ms. Walker said that because the boards and commissions are working to advise and inform the Council, she would defer to the Audit Committee as Council representatives to determine whether the process is providing adequate information.

Vice Mayor Korte suggested the possibility of extending the process from a three-year to a four-year cycle, if that would provide an opportunity for additional audits they have not

had time for. Ms. Walker said they would not likely gain significant time, as what staff does is simply gather the sunset review information and attach it to the agenda. The auditors are spending 5 or 6 hours for each of these. Chair Klapp commented that Board and Commission members are also on a three-year cycle, so a three-year cycle for a sunset review makes sense. Councilwoman Littlefield asked about communicating commissioner suggestions or comments to Council. Ms. Walker suggested possibly adding a question to the Board and Commission Annual Report form for any recommendations for changes to their responsibilities.

VICE MAYOR KORTE MOVED TO ACCEPT THE PROPOSED 2018/19 THROUGH 2020/21 SUNSET REVIEW SCHEDULE AND PROCESS. 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 Proposed FY 2018/19 Audit Plan

Ms. Walker stated that the recurring items on the proposed plan are the same ones that were on the previous list presented in March. Under planned additional, the previously discussed Police Special Revenues and Fire Marshall Inspections carry forward from contingency audits on the current year's plan. Also previously discussed, the Southwest Gas Franchise Agreement is an audit requested through Public Works and the City Attorney's Office. Utility Billing and Revenue Recovery are two key areas within Business Services, which is an area the Audit Committee had previously expressed interest in, as it has not been looked at since 2011 or 2012. Fleet Parts Operation is a proposed audit that has been on contingency for quite some time. It is an area that has not been audited previously, and would particularly focus on the parts inventory, storerooms, staffing and associated costs. In terms of Benefits Administration, they have previously looked at claims processing, but have not focused on how City staff administers the benefits-related contracts.

For contingency audits, Ms. Walker has included facilities management's contract administration and the Museum of the West contract. Typically, the auditors do not get to the contingency audits, but these are included in case something changes during the year.

Chair Klapp referred to recurring audits and asked whether staff have determined what areas they will be auditing for the IT, construction contracts, and cash handling controls. Ms. Walker said specific determinations have not been made yet. On the contracted IT audit, they usually look at the IT risk assessment to see what areas have been covered to evaluate which specific areas or applications still need review. Similarly, for construction contracts, they look at the construction contracts that have been completed in the last couple years and then evaluate the type of construction contract, dollar value of the contract and sometimes by operational area, to narrow down to which contract should be audited. The last cash handling audit was performed in 2016. The audit follow-ups have indicated significant progress, in particular, Bill Murphy and his Community Services areas. Mr. Murphy made it clear to his directors his expectation that the cash handling issues would be cleared up. Since the follow-ups have indicated significant progress, this audit will be taking that into consideration.

COUNCILWOMAN LITTLEFIELD MOVED TO APPROVE THE PROPOSED FY 2018/19 AUDIT PLAN. VICE MAYOR KORTE SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

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

Ms. Walker stated that the Department is currently at about one audit less than what was anticipated. In terms of productivity, they are generally progressing as usual and should reach 14 to 15 reports by the end of the fiscal year.

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

Chair Klapp noted that the next meeting will occur on June 25th. Ms. Walker stated it will include the last sunset review for this three-year period, which is the Library Board. Reports include Job Order Contract (JOC) construction contracts, Police On-Body Cameras and the City Auditor's peer review. They will also present the annual reports for the status of audit recommendations and City Auditor's Integrity Line.

There will be no July meeting. As the draft June agenda shows, the August meeting is scheduled for the 27th to coordinate with the Council calendar.

Public Comment

Comments were provided at the beginning of the meeting.

Adjournment

The meeting adjourned at approximately 4:54 p.m.

SUBMITTED BY:

eScribers, LLC