

APPROVED MINUTES APPROVED ON 03/18/2019



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING**

Monday, January 28, 2019

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

PRESENT: Kathy Littlefield, Councilwoman
Virginia Korte, Councilmember
Solange Whitehead, Councilwoman

STAFF: Sharron Walker, City Auditor
Paul Christiansen, Senior Auditor
Cathleen Davis, Senior Auditor
Shelby Trimaloff, Executive Assistant to City Auditor
Lauran Beebe, Human Resources Manager
Brian Biesemeyer, Water Resources Director
Donna Brown, Human Resources Director
Gina Kirklin, Enterprise and Finance Director
Darcy Nichols, Business Services Director
Robert Schoepe, Purchasing Director
Rachel Smetana, Mayor's Chief of Staff
Steve Venker, Planning & Development Area Manager
Phillip Verver, Senior Budget Analyst

GUESTS: Patty Badenoch
John Evans

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.

NOMINATIONS AND ELECTION OF AUDIT COMMITTEE CHAIR

Sharron Walker, City Auditor, stated that, with the changes in committee membership, the first order of business is nominations and election of a new Chair.

COUNCILWOMAN WHITEHEAD NOMINATED COUNCILWOMAN LITTLEFIELD AS CHAIR. COUNCILMEMBER KORTE NOMINATED HERSELF. NOMINATIONS CLOSED. COUNCILWOMAN LITTLEFIELD WAS ELECTED CHAIR 2-1 WITH COUNCILWOMAN LITTLEFIELD AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE, AND COUNCILMEMBER KORTE DISSENTING.

PUBLIC COMMENT

There were no comments.

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, November 13, 2018

Chair Littlefield requested a revision on page 3, Item 3, adding the word, "not" to the last sentence in the third paragraph. Sharron Walker, City Auditor, confirmed this correction would be made.

CHAIR LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE NOVEMBER 13, 2018 REGULAR MEETING AS AMENDED. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

2. Discussion and Possible Direction to Staff Regarding Historic Preservation Commission Sunset Review

Cathleen Davis, Senior Auditor, stated that the Historic Preservation Commission's purpose is to advise the Planning Commission and the City Council in all matters concerning historic and archeological preservation. The Commission's most recent annual report covers calendar year 2017 and the two prior annual reports cover calendar years 2016 and 2015. The Audit Committee is to evaluate whether the board or commission being reviewed is serving its intended purpose; whether it 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.

Chair Littlefield inquired as to whether the Commission has a new chair. Steve Venker, Planning & Development Area Manager confirmed that the new Chair is Blair Schweiger. Regina Buzzello was selected as Vice Chair.

COUNCILMEMBER KORTE MOVED RECOMMEND TO CITY COUNCIL TO CONTINUE THE HISTORIC PRESERVATION COMMISSION. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

3. Discussion and Possible Direction to Staff Regarding Audit No. 1910 Utility Billing

Paul Christiansen, Senior Auditor, said the audit evaluated the effectiveness and accuracy of Business Services' water, wastewater, and solid waste billing services and the related controls in the utility billing system, looking specifically at the period from July 2017 through September 2018. The Utility Billing staff services about 100,000 customers. Total charges for FY17/18 were \$180 million, with water being 61 percent of those charges. Overall, the audit found Utility Billing was properly authorizing and charging accounts, although auditors did find some errors.

Auditors reviewed 21,000 commercial solid waste billing transactions and tested 41. Of these, 5 were found to be not authorized or charged at correct rates. Two of them were not even being serviced at the time they were charged. These customers were billed nearly \$1,000 in error. Auditors also reviewed solid waste roll-off charges and discovered that 8 of 765 charges were billed to the wrong account, for the wrong amount or not billed at all. A number of minor errors were also identified. Recommendations included having Utility Billing develop a quality control process to review and detect errors. Auditors also recommended improving the reconciliation process between the NorthStar billing system and the general ledger, which was not as effective as it should be.

The billing rates received from solid waste and other departments did not always match with City Council authorized rates. Auditors reviewed 2,700 commercial solid waste customer rates and 115, or 4.3 percent, did not match what was authorized by the City Council. Most of those related to prior negotiated rates or special rates the City Council has authorized the department to use, but there were a handful of minor errors as well.

Auditors also found that 32 of the 33 Paradise Valley customer accounts were being overcharged for the out-of-city surcharge. The City Code allows a 10 percent charge; however, Utility Billing was charging at the standard 15 percent surcharge. The other Paradise Valley customer was not being charged an out-of-city rate. These errors totaled approximately \$14,000 in overcharges for the 32 accounts and \$190 for the account not being charged. Audit staff recommended that Utility Billing take reasonable steps to verify that rates agree with those authorized by City Council. Overall, management has agreed with the findings and is working to implement the changes by the end of June 2019.

Councilwoman Whitehead asked why some customers would be paying different amounts. Darcy Nichols, Business Services Director, stated that different rates are approved for different areas and there are some specially negotiated rates. In response to Councilwoman Whitehead's question about specially negotiated rates, Brian Biesemeyer, Water Department, added that there is a longstanding contract with Paradise

Valley to provide sewer services, and it has a 10 percent out-of-city surcharge. Several years ago, the general out-of-city surcharge was increased to 15 percent, but by contract, the Paradise Valley rate is 10 percent. Chair Littlefield asked about the term limit on the contract. Mr. Biesemeyer stated he would need to provide that information subsequent to the meeting, but he knows it is a long-term contract. Gina Kirklin, Enterprise and Finance Director, recalled this is either a 10 or 20-year contract with several renewal periods. Ms. Walker added that different rates occur on the commercial solid waste side where an individual customer decides on several variables, such as number of pick-ups per week or specific containers utilized. In approximately 2016, the department went to using more standardized rates, rather than negotiating different rates.

Chair Littlefield noted that some of the City's own departments seemed to not know how many bins they have and what they are being charged, so perhaps a notice to the departments would be in order, to verify the expected inventory count and whether it matches with the actual amount. Ms. Walker stated some of the solid waste errors related to a 2016/17 solid waste project done to verify the number and size of the bins and pickups and compare to the billing records to get some corrections made at that time. Also, some City account errors are not caught because the payments are processed and issued automatically. Ms. Nichols has agreed to take a closer look as new account setups and rates are being entered in order to catch errors on the front end. Ms. Walker stated that overall, in the context of over 100,000 customers, they are doing a fairly good job. Mr. Christiansen added the department has already taken steps to address some weaknesses, like developing system reports to help find them.

COUNCILWOMAN WHITEHEAD MOVED TO ACCEPT AUDIT NO. 1910. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

4. Discussion and Possible Direction to Staff Regarding Audit No. 1913, Benefits Administration

Ms. Davis stated that the audit was performed to evaluate the cost-effectiveness of the City's benefits administration, including contract administration responsibilities. Over the past four fiscal years, the City has spent about \$1.1 million per year on contracts related to benefits administration. The audit found that procurement practices for benefit-related agreements can be improved. Current procurement practices are not included in the City's Procurement Code and lack transparency and documentation. Specifically, the Human Resources Benefit group used two benefit consultants to conduct procurements for the City benefit providers. However, this procurement method is not specified in the City's Procurement Code, and one consultant's contract did not specify this level of procurement responsibility. This approach also does not allow a transparent public process to occur as the City does not maintain records related to the consultant's procurement activities.

Auditors found that three of the benefit contracts reviewed were not formally awarded in accordance with Code, which means they did not go through the Council approval or the administrative award process. Some contracts were not timely reviewed, or the evaluation or approvals fully documented. Some aspects of the consultants' agreements contained vague contract terms. Both pricing and successful service delivery may be adversely

affected without clear terms. And, \$11,750 for deferred compensation administrative costs remains in the City's General Fund and should be transferred to the plan provider.

Additionally, protection of personally identifiable information and protected health information is not fully addressed in some benefits-related agreements. While one agreement acknowledges confidentiality, it does not specify how information will be kept confidential and what would happen if a breach occurred. Two other agreements did not have terms related to safeguarding employee PII and PHI as applicable.

Finally, contract administration of third-party benefits can be improved. Benefit staff has not adequately monitored use of wellness funds. They did not use \$21,700 of the funds available through the Cigna agreement to reimburse for employee health and wellness programs. Also, in 11 instances totaling more than \$47,000, Benefits staff created invoices and received the reimbursements directly from Cigna. This process bypassed the City's Accounting department and the related administrative control requirements. Better organized contract administration files would assist in monitoring the agreements. Specifically, the Contract Administrator had difficulty producing the relevant correspondence and other records. As well, one Human Resources department staff had more access to the Benefits shared network files than needed for day-to-day job duties. Human Resources agreed with the audit recommendations.

Councilmember Korte said she was concerned with the findings regarding the Purchasing department's lack of oversight for consultants and lack of transparency. The fact that the City paid Symetra nearly \$600,000 and did not go through City Council for approval is a concern. She requested a follow-up in the next three months.

Councilwoman Whitehead asked whether the unused wellness program dollars roll over. Ms. Walker said they generally do not roll over. In the first year of the program, Cigna allowed approximately \$50,000 to roll over. However, the subsequent occurrence of \$21,000 in unused wellness funds did not roll over as the contract does not require it. The wellness funds are included in the Cigna agreement and are authorized at \$150,000 per year for five years.

Chair Littlefield shared Councilmember Korte's concern regarding the number of large contracts going through without oversight from the Purchasing Director or City Council. She agreed that a further review should occur to ensure appropriate changes are made. She was also concerned regarding the lack of ability to ensure that the personal information of employees is being protected. Ms. Walker noted that new Purchasing Director, Robert Schoepe, is planning to work with Human Resources to determine the best way to handle these issues, and he is here today. Also, Audit typically performs an initial follow-up five to six months after an audit, however they can do a three-month review as they will be performing quarterly follow-up updates anyway. Chair Littlefield stated that the Purchasing Director should pay particular attention to the terms and conditions and what the City requires in other contracts. Another concern is that when the records are all in the Human Resources department, it is not open to the public to see and not available for a records request. Ms. Walker clarified that procurement records would be available for anything that Human Resources directly does. The main concern was the lack of records for procurement-related work being done by consultants.

COUNCILMEMBER KORTE MOVED TO ACCEPT AUDIT NO. 1913 WITH A THREE-MONTH FOLLOW-UP REPORT ON PROGRESS. COUNCILMEMBER WHITEHEAD

SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

5. Discussion and Possible Direction to Staff Regarding 2nd Quarter FY 2018/19 Follow Up on Status of Audit Recommendations

Ms. Walker stated approximately 95 percent of audit recommendations have been implemented, partly implemented or in progress. In the same quarter last year, the status was approximately 97 percent. Councilmember Korte noted that two departments had a greater proportion of non-implemented items than others and asked if audit staff investigates why. Ms. Walker stated that during an audit follow-up, a copy of the recommendation is sent to the department with a request for the current status. When the status report reflects limited progress, audit staff asks questions to clarify the issues to assist with implementation. Some areas are not as willing to implement audit recommendations, but do not have risk-based explanation. For example, one explanation is they are awaiting the availability of additional staff. Ms. Walker periodically has discussions with the City Manager regarding areas lacking progress.

Ms. Walker noted that the report shows three recommendations were categorized as not applicable. One is because an agreement changed terms, while two others were informational findings that she wanted included in the formal report. One of these related to the review of the public safety consultant's report on the police department.

Included in the quarterly status report are the detailed follow-up information, not only for this quarter but also information obtained in all the previous updates for each particular finding. This provides a historical record of progress.

Chair Littlefield requested clarification on the 'not applicable' designation for the McCormick-Stillman Railroad Park audit. Ms. Walker said this item related to an agreement change. The audit issue was either resolved through that process or no longer applied due to the new agreement terms.

Ms. Walker noted that all recommendations will be included in the June 30 annual report.

COUNCILMEMBER KORTE MOVED TO ACCEPT THE QUARTERLY FOLLOW-UP REPORT. COUNCILMEMBER WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

6. Informational Report Regarding 4th Quarter CY 2018 Taxpayer Problem Resolution Officer Report

Ms. Walker stated that this item is an informational report. Much of the tax-related activity has moved to the State. The information now primarily summarizes customer service surveys and overall, the area receives positive feedback.

7. City Auditor Updates, Including Status of FY 2018/19 Audit Plan

Ms. Walker stated said they are running one report behind the original projection. The auditing standards the Auditor's office follows have just had a significant update. As such, staff will have to review policies and procedures and forms and update as necessary. At the end of the year, they will likely remain one audit behind.

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

Ms. Walker stated that the next meeting will be on March 18th. They expect to cover the biennial certified audit, the fleet parts operation audit and the cash handling controls audit. The March meeting will also address remaining items for the annual financial audit. These include a certification on the Housing and Urban Development database entry and an annual expenditures limitation report. By March, they should also be ready to begin talking about FY 2019/20 audit plan topics.

Public Comment

There were no comments.

Adjournment

With no further business to discuss, the meeting adjourned at 4:42 p.m.

SUBMITTED BY:

eScribers, LLC