

APPROVED ON 03/20/2023



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

**One Civic Center
Community Development 1 Conference Room
7447 E. Indian School Rd., Suite 100
Scottsdale, Arizona 85251**

Monday, November 14, 2022

PRESENT: Kathy Littlefield, Chair
Tom Durham, Vice Mayor
Solange Whitehead, Councilwoman

STAFF: Sharron Walker, City Auditor
Elizabeth Brandt, Senior Auditor
Lai Cluff, Senior Auditor
Brad Hubert, Senior Auditor
Shelby Trimaloff, Executive Asst. to City Auditor
Mark Melnychenko, Transportation & Streets Director
Susan Conklu, Senior Transportation Planner
Kyle Lofgren, Staff Coordinator, Transportation & Streets
Bill Murphy, Assistant City Manager
Larry Gimple, Assistant General Manager, WestWorld
E.J. Jones, Event Director, Westworld
Gloria Storms, Business Manager, WestWorld
Robert Schoepe, Purchasing Director
Anna Henthorn, Accounting Director
Chris Downey, Accounting Manager
Sara Delgado, Accounting Manager
Lynn Gustafson, Purchasing Supervisor

GUESTS: Brittney Williams, Heinfeld Meech
Carter Unger, National Western Capital Corporation
John Graber, The Progress

CALL TO ORDER

The meeting was called to order at 2:03 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

PUBLIC COMMENT

No comments were submitted.

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, September 19, 2022

Chair Littlefield called for approval of the minutes.

COUNCILWOMAN WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE SEPTEMBER 19, 2022 REGULAR MEETING AS PRESENTED. VICE MAYOR DURHAM SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR DURHAM AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

2. Discussion and possible direction to staff regarding Transportation Commission Sunset Review

Elizabeth Brandt, Senior Auditor, provided an overview of the Commission's purpose, which is to advise the City Council on matters relating to the safe and efficient use of all transportation modes in the City's transportation network, the elements of the City's Transportation Master Plan, Capital Improvement Program and operating budget.

Mark Melnychenko, Transportation & Streets Director, stated that staff and the Commission have worked hard to ensure that the Commission remains relevant. They do this by maintaining a good mix of action items and information. Presentations are succinct and relevant. One of the key areas of focus has been the development of the Transportation Action Plan, which was an important topic for nine meetings. Councilwoman Whitehead expressed strong support for keeping the Commission active.

COUNCILWOMAN WHITEHEAD MOVED TO RECOMMEND TO THE CITY COUNCIL TO CONTINUE THE TRANSPORTATION COMMISSION. VICE MAYOR DURHAM SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

3. Discussion and possible direction to staff regarding Paths & Trails Subcommittee Sunset Review

Ms. Brandt stated that the Subcommittee's purpose is to advise the Transportation Commission and to provide a public forum for issues surrounding paths and trails.

Mr. Melnychenko stated that the Subcommittee plays a major role in the initial steps in a number of the active transportation elements and action plan. Kyle Lofgren, Office Manager, Transportation & Streets, added that participation by the Commissioners has been very well received by staff, including virtual and hybrid format meetings during the pandemic. The Subcommittee is the first group to review and evaluate a number of items before they are undertaken by the Transportation Commission.

Councilwoman Whitehead asked about the composition of the Subcommittee. Mr. Lofgren stated that the make-up is comprised of two Transportation Commission members, one Parks & Recreation Commissioner and two subcommittee members. Terms are two years.

COUNCILWOMAN WHITEHEAD MOVED TO RECOMMEND TO THE CITY COUNCIL TO CONTINUE THE PATHS & TRAILS SUBCOMMITTEE. VICE MAYOR DURHAM SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

4. Discussion and possible direction to staff regarding Audit No. 2301 FY2021/22 Financial and Compliance Audit

Lai Cluff, Senior Auditor, stated that City Charter requires the City Council to designate CPAs to perform an independent audit of the City's annual financial statements. The annual financial statements are produced by the Accounting department. The City Council has assigned the contract responsibilities for the financial audit to the City Auditor. Heinfeld Meech is the City's CPA firm contracted to conduct the audit.

In providing a review of the audit results, Brittney Williams, Audit Partner with Heinfeld Meech, stated that the independent auditor's report was issued on the City's financial reports and for each of the seven component units, and all received clean opinions. A communication to governance was issued for each. The HURF report was also issued this year, which is provided to the State about Highway User Revenue monies being used appropriately. Also issued was the Single Audit report, which entails audits of federal awards expended by the City. Ms. Williams explained they rotate which programs they look at during the audit based on how large the programs are and what the federal agencies want audited, such as the covid-related grants. This year, they tested the airport improvement program, the highway planning and construction cluster, the federal transit cluster, and the coronavirus state and local fiscal recovery funds. Page 10 of this report gives a great synopsis of the results. There was one finding of significant deficiency regarding P-Card transactions. Internal audit had conducted its own audit during that time and had identified similar issues, which were addressed with the department. Ms. Williams stated they have another couple reports to issue, likely in January/February timeframe. These are agreed-upon procedure type engagements: the expenditure limitation report and the HUD REAC filings.

Vice Mayor Durham asked for clarification on the City's audit findings with P-Cards. Sharron Walker, City Auditor, stated that the findings were very similar in terms of not having timely supervisory review and supporting documents. Chair Littlefield suggested that once the changes are made, there should be a review to ensure that processes are running smoothly. Ms. Walker noted that this will definitely happen, as staff conducts a follow-up every three to six months on completed audits. During next year's financial audit, the CPA firm also reviews its prior findings.

COUNCILWOMAN WHITEHEAD MOVED TO RECOMMEND TO CITY COUNCIL TO ACCEPT AUDIT NO. 2301, FY 2021/22 FINANCIAL AND COMPLIANCE AUDIT, AS SUBMITTED. CHAIR LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

5. Discussion and possible direction to staff regarding Audit No. 2209, WestWorld Operations

Brad Hubert, Senior Auditor, provided a brief review of WestWorld operations, events and activities. Operating revenues are earned through facility rentals and use fees, feed and bedding sales and RV parking fees. The audit found that negotiated facility rates do not consider the event labor hours, and rate and fee information does not accurately evaluate their cost recovery. Specifically, the average daily rate per facility for equestrian events is 88 percent lower than for other types of events. This is even though equestrian events use more facilities and require much more labor support from WestWorld staff than other types of events. Although equestrian events earn additional income from feed and bedding sales, the loss of the underlying facility revenue reduces the overall income.

In addition, WestWorld has negotiated multiyear contracts with many events, which are charged an average of 64 percent less per day for each facility than contracts developed using standard Council-approved rates and fees. The auditors recommended that WestWorld develop a sliding scale for discounting facility rates based on the level of related guaranteed revenues and prepare analyses that support additional discounts.

In general, WestWorld rates are lower than comparable equestrian facilities around the country and its RV rates are lower than most other RV parks in the Scottsdale area. A more thorough RV rate analysis should be done, including whether additional fees are needed.

WestWorld does not include indirect costs when calculating its various rates and fees. As such, the stated 94 percent cost recovery is not accurate. Instead, approved fees only recover about 49 percent of the total cost. City budget guidance requires that the analysis include both direct and indirect costs and recommends evaluating these against the competitive market rate limitations before recommending rates and fees for Council approval.

There are also opportunities to improve facility use monitoring, marketing, billing, and RV processes. WestWorld reports use days to measure its activities, which count each event the same, regardless of the size or number of facilities used. A better method would calculate individual facility use rates, based on the number of days each facility is used versus its availability. This would allow management to establish activation goals for each

facility, which should allow time for required maintenance. The individual use rates could also help with creating a comprehensive marketing plan.

Currently, WestWorld staff track their daily activities on Excel spreadsheets, referred to as the work order system. These sheets have missing and inconsistent information and instances of unusually high labor hours for some employees. Using software with input and access controls would be more accurate and efficient. The detailed service tracking and charges slow down and complicate both the operational and billing processes. Sending a final bill to event producers can take staff up to four months from the time the event ends. The audit recommended that they establish a billing timeliness goal and monitor performance against that goal. They should also evaluate ways to include routine event services, such as cleaning restrooms and providing phone and internet services, into facility rates. In addition, staff should ensure that contract terms are applied, and any changes are approved and documented. For example, when event producers downsize their events at the last minute, WestWorld should charge the full contract amount or establish late modification fees. As well, the website can provide better customer service by allowing online RV reservations and having maps of rentable event space. In general, WestWorld management agreed with the recommendations and have begun making several of the suggested improvements.

Bill Murphy, Assistant City Manager, discussed the pending implementation of the use of EventPro software for a variety of tracking, calendaring and accounting purposes. They are currently evaluating options for improving the work order system, such as utilizing the system used by Community Services. In response to issues regarding deposits and fees, it is important to note that activities at WestWorld bring beneficial financial impacts beyond bookings and activities, including revenues from restaurants, gasoline and hotels. National Western Capital Corporation holds WestWorld's contract for marketing, advertisement and webpage, and the team is currently working on website improvements.

There is a slight disagreement in terms of RVs. The audit recommends putting reservations online. Until some of the processes can be streamlined, moving into an automated system may result in chaos. They will be looking at rate and fee increases for approval by City Council. Staff has done a great job with balancing equestrian and special events over the past several years, with an approximate 50/50 split.

Larry Gimple, Assistant General Manager, WestWorld, stated that he takes an aggressive approach to issuing billing for events.

Chair Littlefield expressed support for WestWorld as one of the most unique facilities in the City. Organization of the facilities is a huge undertaking. She was surprised with the audit findings indicating lack of internal controls. Rates should be competitive and overhead costs incorporated. She would like to see an accurate analysis of overhead costs. She would also like to have a brief update and review of progress in the future.

Vice Mayor Durham asked for clarification on the invoicing process, which seems to lack clarity and results in delayed billing. E.J. Jones, Event Director, Westworld, stated that there are a variety of charges that accumulate on contracts. For example, a horse show may expect to use 200 stalls and actually utilizes 400 stalls. Staff must care for and maintain all areas by the hour. Tallying the discrepancies and preparing accurate billing takes time.

Mr. Murphy commented that staff is embarking on a master plan to involve parking, drainage and other property assets, to include expansion of electricity and internet.

Councilwoman Whitehead expressed appreciation for both WestWorld and audit staff. Using an approach to black out RV reservations for specific weeks would help to minimize staff work. She encourages a reevaluation on fees and rates.

In response to a question from Councilwoman Whitehead regarding charging for internet access, Mr. Murphy stated that they first have to ensure adequate bandwidth to cover usage.

In response to question from Councilwoman Whitehead, Gloria Storms, WestWorld Business Manager, stated that Barrett-Jackson is the longest running contract.

Councilwoman Whitehead asked about the new program for horse manure composting. Mr. Murphy stated that they had previously been contracting with a nursery, which picked it up. That nursery has since gone out of business and staff is currently looking for a new partner.

Chair Littlefield suggested that when they have set an overhead rate to cover expenses, this should be reviewed on a regular basis.

Councilwoman Whitehead suggested exploring ways to increase public access, particularly in the summertime, when individuals may be looking for cooled places for jogging.

VICE MAYOR DURHAM MOVED TO ACCEPT AUDIT NO. 2209, WESTWORLD OPERATIONS, AS SUBMITTED. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

6. Discussion and possible direction to staff regarding 1st Quarter FY 2022/23 follow up on status of audit recommendations

Ms. Walker stated that progress is very similar in comparison to previous years. Approximately 73 percent of recommendations are implemented or partly implemented. Approximately 25 percent are in progress and 2 percent are not implemented. Overall, progress is good.

7. City Auditor updates, including status of FY 2022/23 Audit plan and tentative meeting dates for calendar year 2023

Ms. Walker stated that there are a couple of audits behind schedule, however, the department has had one to two vacancies during the first half of the year. In addition, some departments to be audited are also facing staffing vacancies. Two audits will likely be carried to the next fiscal year.

The committee discussed a draft list of upcoming meeting dates, with the next meeting scheduled for February 27th, 2023.

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

Ms. Walker stated that there will likely be a couple of audits prepared for the February, 2023 meeting. There will also be an Airport Advisory Commission Sunset Review as well as a quarterly audit follow up.

Chair Littlefield asked for any Committee comments. Councilwoman Whitehead thanked Ms. Walker for her service to the City. The city having an independent audit department is an incredible boost to the City's bottom line and public trust, and it's such an important check and balance. Coming onto this, she did not realize that not every city has this independent position, and she expressed her appreciation. Chair Littlefield concurred and thanked Ms. Walker as well. Ms. Walker's department has done so much to help the City stay on track by identifying things that can be fixed to make us a better, tighter, leaner, and efficient organization.

Adjournment

With no further business to discuss, being duly moved by Councilwoman Whitehead and seconded by Vice Mayor Durham, the meeting adjourned at 3:03 p.m.

SUBMITTED BY:

eScribers, LLC