

APPROVED MINUTES APPROVED ON 10/19/20



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING**

Monday, August 17, 2020

Meeting Held Electronically

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

STAFF: Sharron Walker, City Auditor
Lai Cluff, Senior Auditor
Brad Hubert, Senior Auditor
Paul Christiansen, Senior Auditor
Shelby Trimaloff, Exec. Asst. to City Auditor
Bill Murphy, Assistant City Manager
Reed Pryor, Director, Parks and Recreation Department
Alan Rodbell, Chief of Police
Helen Gandara, Assistant Chief, Police Department
Michael Keran, Director, Police Department Operational Support Division

CALL TO ORDER

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

PUBLIC COMMENT

In response to Chair Littlefield's inquiry, Sharron Walker, City Auditor, confirmed that no public comments had been received.

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, June 15, 2020

Chair Littlefield called for comments/changes to the minutes.

VICE MAYOR WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE JUNE 15, 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 Parks and Recreation Commission Sunset Review

Brad Hubert, Senior Auditor, reviewed the purposes of the Commission as being to advise the City Council, when requested by the City staff on offers to the City of real and personal property to be used for park or recreational purposes; advise, counsel and aid the Council in the purchase, sale, lease or other method of acquiring or disposing of lands, structures and facilities for use as parks or recreational centers; and advise, counsel and aid the Council and City Manager in the operation, use, care and maintenance of areas owned, leased or otherwise acquired by the City for use as parks or recreational centers.

The most recent Commission annual report is available for review, as are the two prior calendar year annual reports. The Audit Committee is to evaluate whether the Commission is serving its intended purpose, whether the Commission purpose should be maintained or modified and whether the purpose has been served or is no longer required. Specifically, the Audit Committee is being asked to recommend to City Council whether to continue or terminate the Commission.

COUNCILMEMBER KORTE MOVED TO RECOMMEND TO THE CITY COUNCIL TO CONTINUE THE PARKS AND RECREATION COMMISSION. VICE MAYOR WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

3. Discussion Possible Direction to Staff Regarding Audit No. 2003, Police Technology Services

Lai Cluff, Senior Auditor, stated that Police Technology Services was selected for this year's information technology audit. As the Police Department is in the early stages of acquiring several new critical police systems, the scope of the audit focused on evaluating the Department's general IT controls. The Audit Department contracted with MGT of America Consulting as the IT audit specialist for this work. The specialist also had experience with the Criminal Justice Information Services (CJIS) security policy, which the Scottsdale Police Department must comply with. CJIS provides minimum security requirements for handling criminal justice information. The audit specialists applied the COBIT framework for technology audits and ISO standards for best practice recommendations.

The audit found that overall, more formalized roles and responsibilities between the Police Technology Services Division (TSD) and City IT would help strengthen controls. As a departmental technology group, Police Technology Services relies on City IT for many infrastructure-related services, such as network security, backup and recovery and database management. However, a service level agreement between the two departments would help ensure that CJIS requirements are addressed and security controls are established and functioning.

As well, expanding continuity of operations and incident response planning is needed, including periodic testing of backup and recovery processes to ensure integrity and availability of data. The audit also found that controls relating to access and change management could be improved to protect the confidentiality, integrity and availability of police data, access to equipment and software applications should be further restricted, and access for terminated employees needs to be more promptly removed. To help with this, the audit recommended that user access information for its various police systems should be centrally maintained by TSD. Relating to change management, TSD's policies and procedures for testing and documenting program changes need to be more formalized.

Vice Mayor Whitehead stressed the importance of immediately ending access for terminated employees. Alan Rodbell, Chief of Police, said that the department will be performing process mapping to review how retirements and resignations are handled. They have addressed the issue of server access and are planning to meet with the City IT department to discuss their partnership roles.

Chair Littlefield noted that there have been recurring problems in the City of Scottsdale overall in terms of responding to recommendations for upgrading computer controls when a person leaves employment. Perhaps this issue is appropriate for presentation to the City Manager and possibly Mr. Hartig in the IT department in terms of setting standard policies and procedures. Ms. Walker agreed that this is an area to address with the City Manager. Similar concerns with access rights have been noted across various technology areas in the City. This concern increases as the City begins to use more cloud-based systems.

4. Discussion Possible Direction to Staff Regarding Report No. 2008, Fleet Operations

Brad Hubert, Senior Auditor, stated that Fleet Management is responsible for purchasing and maintaining the City's fleet of more than 1,200 vehicles and equipment. It operates as an internal service fund, allocating its costs to departments that are fleet users. A key principle for internal service funds is applying a cost allocation methodology that charges fees equitably, based on use or other causal factors. However, the audit found several instances where fees were not calculated correctly or applied consistently.

Fleet Management charges three rates to City departments using fleet equipment: the Replacement fee, which uses a projected escalation rate and projected vehicle lifespan to calculate future replacement cost; a Maintenance and operation fee based on actual maintenance costs plus departmental overhead; and a Fuel fee, based on actual fuel costs plus departmental overhead.

Auditors determined that Fleet Management can improve its replacement rate methodology and the accuracy and consistency of its application.

The audit recommended Fleet use published automobile inflation data for the cost escalation rates for sedans and light trucks and then determine discrete escalation rates for specialty vehicles. This was recommended because Fleet Management's current use of a single fleetwide escalation rate for vehicle replacement fees resulted in annual overcharges of nearly \$1.2 million for passenger cars and light trucks. It was also a key factor in the undercharge of more than \$4.3 million for 12 new firetrucks placed into service since 2014. This results in cost shifting, rather than departments paying their correct proportionate shares of fleet costs. Further, despite the Fleet Fund averaging \$11.5 million in cash reserves over the past six years, the replacement rate is adjusted each year to fund vehicle and equipment acquisitions from current year revenues without using any reserves.

The audit also recommended that Fleet Management include the salvage value of vehicles when calculating replacement rates. On average, Fleet Management recovers approximately 12 percent of original vehicle costs when it auctions surplus vehicles. This average return of approximately \$650,000 per year is not used to offset the departments' vehicle replacement costs, but instead is used to offset administrative costs.

Fleet Management should also systematically compare the length of actual vehicle and equipment usage to their estimated useful lives. Replacement fees are calculated based on the expected useful life of the vehicle or equipment. However, almost one-quarter of all fleet equipment had lives significantly longer than their projected useful lives. This results in many City departments being charged replacement fees for vehicles and equipment well after the expected replacement costs have already been recovered.

Review of the actual replacement fees collected by Fleet Management found that 42 percent of the fees were calculated incorrectly over the past six years. The fees are not always applied correctly or consistently. Among these an error in the program used to calculate the replacement fees caused an overcharge of approximately \$1.05 million over the past six fiscal years. After auditors brought this to the department's attention, Fleet Management reported they corrected the error.

The failure to start or end replacement fee charges timely resulted in missed fees of nearly \$1.4 million and overcharged fees of approximately \$270,000.

Fleet Management excluded 22 of its own 24 vehicles and equipment from the replacement fee charges.

Seventeen vehicles in various departments throughout the City were excluded from replacement fees. While some were donated to the City, Fleet Management does not have a consistent policy for determining which vehicles are charged and which are not.

And while Fleet Management sometimes redeploys vehicles to other departments, there is not a consistent policy for deciding whether replacement fees will continue to be charged for redeployed vehicles.

As shown in Table 8 on page 17 of the report, the net effect of the errors was that City departments were overcharged more than \$763,000 over the past six fiscal years. The General Fund was undercharged approximately \$128,000; the Transportation Fund overcharged more than \$628,000; and the Solid Waste Fund overcharged more than \$362,000.

Auditors also determined that savings could be achieved by reducing low-use vehicles in the City fleet and ensuring that preventative maintenance occurs timely. Much like the results of a 2010 audit and the results of the 2017 City Manager's Fleet Efficiency Workgroup, the City fleet continues to have many vehicles driven less than 5,000 miles per year. This review found 242 of these lightly used vehicles in the last fiscal year. Although Fleet Management has had a motor pool for shared use of vehicles since 2012, these vehicles are also lightly used. Developing an effective method of charging motor pool use to various departments and promoting its use could help reduce the number of low-use City vehicles and reduce the fleet expenses for departments with limited vehicle needs. And that would reduce the City's overall fleet expense.

Ensuring that preventative maintenance occurs timely can help reduce the cost of repairs or breakdown. Fleet Management has established a goal of ensuring that at least 90 percent of preventative maintenance is done timely and is seeking to exceed this goal. However, historically some departments have not brought their vehicles in timely. Developing a standardized process for escalating preventative maintenance delays to higher management levels could help ensure that vehicles are maintained in a timely manner.

Fleet Management agreed with the audit recommendations and has stated they plan to implement the suggested improvements over the next two to three years. Both the Fleet Management Director Mel Galbraith and Public Works Director, Dan Worth, had previously scheduled vacations this week but indicated they would be available for questions at the next Audit Committee meeting if requested.

Bill Murphy, Assistant City Manager, stated that the report has been reviewed. Fleet Management agrees with the findings. They will be working with the Budget office and Accounting to better manage the pooled equipment and low mileage vehicles. The team will be addressing these issues in conjunction with preparing the upcoming budget.

Vice Mayor Whitehead commented that the audit was very interesting, and she likes the idea of more efficient use of vehicles and all the recommendations.

Councilmember Korte stated that in her seven and a half years on the Audit Committee, she has seen consistent weaknesses disclosed through audits in Public Works departments related to purchasing, fleet, transportation, and capital projects. Given this cumulative perspective, she was going to request a complete review by the City Manager of Public Works and audits that have taken place within the last four or five years. The City Manager should then report back to the Audit Committee.

Chair Littlefield agreed, commenting that there are a lot of moving parts in this area, but it also seems to have a lot of problems. She noted the computer glitch that was not caught, the over- and undercharges, and the light-use vehicles. If the vehicle demand is not high enough, the City could get rid of them and not have to pay for their upkeep. Chair Littlefield also agreed with Councilmember Korte that a full review might not be a bad idea. In response to the Chair's inquiry, Ms. Walker commented that a motion for the City Manager to review all Public Works audits may not be within the agenda item's scope of the Fleet Operations audit, but she and Mr. Murphy could relay the Audit Committee's request to the City Manager.

Vice Mayor Whitehead inquired if they could accept the audit with a condition that all related department audits also be reviewed. Ms. Walker responded that may be intermingling the audit with a City Manager review.

Mr. Murphy stated that he understood the discussion and would relay the request to the City Manager, and they would provide information to the Audit Committee subsequent to their discussion.

COUNCILMEMBER KORTE MOVED TO ACCEPT AUDIT NO. 2008. CHAIR LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

5. Informational Report Regarding 2nd Quarter CY 2020 Taxpayer Problem Resolution Officer Report

Ms. Walker stated that this report was provided for informational purposes. There were no questions from the Audit Committee.

6. City Auditor Updates, Including Statute of FY 2020/21 Audit Plan

Ms. Walker stated that they are early in the fiscal year, and the audit plan status is currently on target.

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

Councilmember Korte recommended adding a City Manager review and report on Public Works audits in the last four to five years. Audit Committee members concurred, and they

agreed that this should be added to the October or November agenda. Ms. Walker will confirm the timing with the City Manager.

Ms. Walker stated that the next meeting will include the McDowell Sonoran Preserve Commission Sunset Review. During the February 12, 2019, City Council work study meeting, one of the agenda items addressed boards and commissions. Part of the direction that City Council provided at that time was to review, as part of the Audit Committee's sunset review scheduled for October 2020, possible expansion of the McDowell Sonoran Preserve Commission's membership to 11 members.

Ms. Walker noted that the ambulance services contract and NTD financial data review are also scheduled. As well, the draft agenda includes bringing back the Fleet audit, so she requested feedback on whether the Audit Committee would like that audit to come back.

Committee members agreed that it would not be necessary to put that audit on the October meeting agenda since a larger review of Public Works audits is planned.

Adjournment

With no further business to discuss, the meeting adjourned at 4:44 p.m.

SUBMITTED BY:

eScribers, LLC