

APPROVED ON 06/21/21



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

**REGULAR MEETING MINUTES
Monday, April 19, 2021
Meeting Held Electronically**

PRESENT: Kathy Littlefield, Chair
Tom Durham, Councilmember
Solange Whitehead, Councilwoman

STAFF: Sharron Walker, City Auditor
Kyla Anderson, Senior Auditor
Paul Christiansen, Senior Auditor
Lai Cluff, Senior Auditor
Brad Hubert, Senior Auditor
Shelby Trimaloff, Executive Asst. to City Auditor
Brian Biesemeyer, Scottsdale Water Executive Director
Gina Kirklin, Enterprise and Finance Manager
Dan Worth, Public Works Executive Director
Dave Lipinski, City Engineer
Adam Yaron, Principal Planner

GUESTS: Christopher Goeman, Heinfeld Meech
Kevin Burnett, Willdan Financial Services

CALL TO ORDER

Councilwoman Littlefield called the meeting to order at 4:00 p.m. A formal roll call confirmed the presence of all 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, February 22, 2021

Chair Littlefield called for comments/changes to the minutes.

COUNCILMEMBER DURHAM MOVED TO APPROVE THE FEBRUARY 22, 2021 REGULAR MEETING MINUTES AS PRESENTED. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

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

Brad Hubert, Senior Auditor, said that the purpose of the Neighborhood Advisory Commission is to advise Council on policies, plans, strategies, and programs for the preservation, improvement, and revitalization of Scottsdale neighborhoods. They also have the ability to make recommendations to City Council and establish criteria for determining how certain grant funds are allocated and can approve or deny those grant program applications using that procedure. The requested action is to evaluate whether the Board is serving its intended purpose, whether the purpose should be maintained or modified and whether the purpose has been served or is no longer required. The Audit Committee is then to recommend to City Council whether to continue or terminate the Board. He noted that Adam Yaron, the Board's Staff Representative, is available to answer questions if needed.

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

3. Discussion and possible direction to staff regarding annual financial audits

- **FY 2019/20 Financial Audit completion**

Paul Christiansen, Senior Auditor, said that the City of Scottsdale contracts with Heinfeld Meech to perform the annual financial audit and he introduced Chris Goeman, Heinfeld Meech Audit Manager.

Mr. Goeman presented the remaining audit reports issued for FY 2020, including the Single Audit report, the management letter, the Annual Expenditure Limitation Report, and reports related to the HUD REAC submission.

- Single Audit Report package and Management Letter

Mr. Goeman noted that they did not identify any significant deficiencies or material weaknesses over financial reporting or any non-compliance material to the financial statements.

For the Single Audit, the tested federal programs included the Housing Voucher cluster, the Federal Transit cluster, and the Coronavirus Relief Fund. Overall, the audit covered approximately 81 percent of the City's federal expenditures.

The Housing Voucher cluster testing identified an error that was both non-compliance and a significant deficiency of internal controls in the eligibility compliance requirement. One of the program tenets is providing affordable housing, and the federal government considers "affordable" to be no more than 40 percent of the family's monthly adjusted income. One of the forty sampled files showed a tenant payment equating to approximately 61 percent of the family's monthly adjusted income. The identified cause was a unique family situation that required a proration. Management responded to the finding that corrective action is being taken. They plan to put additional automated controls in place for checking the 40 percent rule. There will be also be training for the housing specialists.

Management letters address internal control items that are not required to be in the single audit report, but we feel are noteworthy items that should be addressed by management. This year the auditors noted some voided receipts in the ActiveNet system did not have supervisory approval. For the Housing Voucher cluster, a monthly report was not reviewed for clerical accuracy. As well, the methodology for estimating allowances for doubtful accounts, is based on a five-year average of write-offs. Due to the current economic conditions, the City saw more than a 100 percent increase in noncurrent utility accounts, approximately \$1.2 million at fiscal year-end. So the City should review that estimate. For the Federal Transit Cluster, a duplicate reimbursement request sent to the City of Phoenix was caught by Phoenix. Scottsdale staff stated some enhanced reconciliations have been implemented since then.

- Annual Expenditure Limitation Report

State statute requires that the City prepare the Expenditure Limitation Report on an annual basis. The City is well under its expenditure limit of \$92 million for FY 2020.

- HUD Report package

The HUD REAC report is submitted on an annual basis. As part of the audit, the REAC submission was reconciled to underlying documents such as the FDS schedules, Single Audit report, and comprehensive financial report.

- **FY 2020/21 Financial Audit initiation**

Mr. Goeman previewed the FY 2021 audit scope and objectives. Preliminary fieldwork will be performed in June, August, and September.

COUNCILWOMAN WHITEHEAD MOVED TO RECOMMEND TO THE CITY COUNCIL TO ACCEPT THE REMAINING REPORTS SUBMITTED FOR THE FY 2019/20 FINANCIAL AUDIT. COUNCILMEMBER DURHAM SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

4. Discussion and possible direction to staff regarding Report No. 2103, Biennial Certified Audit of LUA, IIP and Development Impact Fees

Kyla Anderson, Senior Auditor, said that to comply with state law, in 2011 Scottsdale Water opted for biennial certified audit of its land use assumptions, infrastructure improvement plan, and development fees. The City Auditor contracted with Willdan Financial Services to conduct the audit because State law does not allow the City's audit department to conduct this audit. The audit was first posted on the City's website on April 9, 2021 and a public hearing will be held on May 18, 2021 as part of the City Council meeting.

Kevin Burnett, Willdan Financial Services, said that the City's development impact fees (DIF) are allowed under A.R.S. 9-463.05, which governs how development impact fees can be used and how they have to be developed. They must be based on land use assumptions, which is a projection of what development will look like, and an associated infrastructure improvement plan.

The audit included a review of the 2017 land use assumptions and infrastructure improvement plan, the 2018 development fee report, and the City's development impact fees, revenues, and expenditures between July 1, 2018 and June 30, 2020. The audit covers the first two years of the 15-year study period.

Review of the land use assumptions found a minor difference between the projected assumptions and the actual, which is to be expected when looking at assumptions versus actuals. Review of the infrastructure improvement plan showed that some projects have been completed, some are under way, and some have not been started yet. Review of expenditures showed that all expenditures made in the two-year period were on growth-related components of development impact and related projects. No inequities were found when implementing the plan or assessing fees.

The audit concluded that the City's development impact fee program was consistent with and in compliance with A.R.S. 9-463.05.

Councilwoman Whitehead asked if we are finding the true costs of infrastructure improvements caused by new growth and whether the fees are covering the costs.

Brian Biesemeyer, Scottsdale Water Executive Director, said that the department looks back to reassess its rates. This audit will go to City Council about the same time as the

department's proposed update to the LUA and IIP. And ultimately this is the process the department goes through to update its development impact fees. He commented that there will be some changes to the impact fees this year as they come back to City Council again.

COUNCILWOMAN WHITEHEAD MOVED TO ACCEPT REPORT NO. 2103, BIENNIAL CERTIFIED AUDIT OF LUA, IIP, AND DEVELOPMENT FEES, AND RECOMMEND PROCEEDING WITH THE PUBLIC HEARING WITHIN THE 60-DAY PERIOD. COUNCILMEMBER DURHAM SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

5. Discussion and possible direction to staff regarding Audit No. 2107, Fire Stations Construction Contracts

Lai Cluff, Senior Auditor, said that fire station construction contracts were chosen for this year's construction contract audit. The fire station construction projects were funded through the 2015 voter approved bond. The audit reviewed construction of Fire Station 603 in McCormick Ranch, which at the time of the audit was approaching completion; Fire Station 613 in Desert Foothills, which at the time of the audit had been completed; and Fire Station 616 in Desert Mountain, which at the time of the audit was in progress. The Capital Projects Management (CPM) department managed these projects in collaboration with the Fire Department. A design bid build project delivery method was used, meaning an architect was hired to design the stations and produce construction documents that were used to request competitive contractor bids. Lump sum contracts were then awarded to the lowest qualified bidder.

The audit found that the CPM inspection team was thorough in monitoring construction quality and progress. However, some aspects of the contract and construction administration could be improved. First, construction phase service contracts could be more consistently managed to minimize unnecessary costs. After design, the architect is also contracted to provide construction phase services. The scope of work for these contracts varied from project to project, with some including tasks that may be unnecessary or duplicate work performed by CPM staff.

Construction phase services were typically added on to the design contract as change orders. However, City Manager approval was not obtained as required by procurement code. In one instance, the change was split into a separate smaller contract, avoiding the threshold requiring additional authorization. Also, including these services in the design contract negotiations would improve transparency and may more effectively control costs.

Second, the audit found that updated and more complete policies and procedures would help ensure contract terms are consistently applied. For example, construction contracts and CPM policies and procedures do not define "Force account" contingency amounts added to the contractors' bid amounts or the process for using these funds. As a result, inconsistencies were observed in how use of the funds was authorized or documented. Substantial Completion certificates were not issued, and actual practices for project completion and closeout differed from the requirements described in the contract. Contractor time extension requests were not required to be submitted when delays

occurred. In the design phase, auditors found that design process monitoring activities may not have been performed or were only partially performed. The audit recommended that procedures be clarified or enforced to more consistently monitor design quality and timeliness. The audit also recommended updating outdated policies and procedures manuals and more consistently maintain project documentation.

Dan Worth commented that he thought it was a good audit. He also wanted to highlight that while there are areas for possible process improvements, there were no deficiencies that appear to have cost the City money. These projects were unusually difficult and the first two low bid contractors that were chosen for one project backed out. Then the third contractor, because of difficult conditions, did not want to do it. There were also some changes in management during the projects. But there are process improvements that the department is absolutely going to take a look at and some have already been put in place.

Councilman Durham said that some of these findings may have led to extra costs but it is a little vague. He asked if the point that including construction services in the design contract negotiations to be more transparent could have led to higher costs. Mr. Worth said he did not believe so, but did not disagree with the observation made and the department will review its processes. For many projects when design services are negotiated, they do not negotiate construction phase services at the same time. In some cases, though not recently, the department has contracted for construction phase services with a different design consultant. Each project is unique and has different demands, and the department may or not need help from the design consultant during the construction phase. Opportunities to streamline a process and avoid potentially redundant services will be considered and adjustments will be made accordingly.

Chair Littlefield commented that contract administration seems to be an area where a number of City departments have problems. She suggested that it might be beneficial for departments to work together to troubleshoot ways to address areas of concern.

COUNCILMEMBER DURHAM MOVED TO ACCEPT REPORT NO. 2107, FIRE STATION CONSTRUCTION CONTRACTS. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

6. Discussion and possible direction to staff regarding 3rd Quarter FY 2020/21 Follow-Up on Status of Audit Recommendations

Ms. Walker presented the third quarter follow-up status of audit recommendations. She noted that there was a significant jump this quarter in the implementation of audit recommendations, along with a decline in the Partly Implemented and In Progress categories because so many were moved into the Implemented category. Most of the improvement was attributable to the ActiveNet audit from May 2019, the Police Technology Services audit from August 2020, and the Warehouse audit in October 2019.

7. Discussion and possible direction to staff regarding the Audit Committee's Sunset Review process and draft schedule for FY 2021/22 through 2023/24

Ms. Walker presented the proposed three-year sunset review schedule for the Audit Committee's review and recommendation. She clarified in the draft process that if the Audit Committee ever wanted to make a recommendation related to modifying a board or commission's purpose, they could do that by providing direction to staff, who would then consult with the City Attorney's Office on drafting an amended ordinance. Ms. Walker also noted that the Veterans Advisory Commission is a new commission and has been added to the draft schedule.

COUNCILMEMBER DURHAM MOVED TO ACCEPT THE AUDIT COMMITTEE'S SUNSET REVIEW PROCESS AND DRAFT SCHEDULE FOR FY 2021/22 THROUGH 2023/24. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

8. City Auditor updates, including status of FY 2020/21 Audit Plan

Ms. Walker presented the project status update, noting items expected for completion in time for the June Audit Committee meeting and items that will likely roll into next year's audit plan.

The Scottsdale Unified School District bond project audit was added following Council's approval of that audit contract. The crime reporting statistics audit has been delayed until fall of 2021, because the department changed to a new reporting system. Every three years the City Auditor's Office gets an external review. The Association is not currently doing these reviews because of the pandemic but is expected to resume them later this year.

She noted that April's report line on the graph is flat because the two audit reports for this meeting were completed by the end of March.

9. Discussion of potential topics for FY 2021/22 Audit Plan

Ms. Walker reviewed a draft audit plan showing the number of audits that may be included for next year. She noted a few audits are done every year for various reasons, either risk-based like an IT audit and a construction contract audit, or for statutory reasons, like the financial audit contract and the E-Verify audit. In addition to recurring audits, items 7 through 11 will be carried forward from this year since they will not be completed. The section that is labeled "additional audits" generally results in having about 15 audits on the audit plan. And they usually have a couple extra audits labeled "contingency" audits in case all other work is done early. Ms. Walker mentioned that as noted by number 12, although it is not started yet, she would also like to include the purchasing card controls audit because the City is changing to a new purchasing card system. The other list is potential audit topics. She will present a proposed audit plan during the June meeting. This meeting's agenda item is to welcome Audit Committee feedback regarding potential audits to include.

Chair Littlefield commented that priority should be given to areas that have not been recently looked at. She noted that since their last audits, WestWorld has changed many of its contractual agreements and the Library has changed significantly due to COVID-19 restrictions.

Councilwoman Whitehead suggested an update on the Experience Scottsdale audit because that contract will reach its term in the next year or two. Significant issues were identified previously, and she would like to see where they are regarding expenditures and their focus on Scottsdale. Another area would be an audit of fees for renting public facilities, such as parks and swimming pools, versus the actual cost of managing the facilities. Other questions would be the amount of time that public facilities are used for private rentals versus general public use, and the percentage of private users that are Scottsdale residents versus outside the city, although she is not sure if that would be feasible. Ms. Walker said that these types of user information should be available through the registration or reservation information.

Councilman Durham expressed interest in the Risk Management area and the City Clerk's Office because they have not been audited in a while. In particular, he noted over the last ten years there have been enormous changes in the logistics and technology of records management. Chair Littlefield agreed, particularly because it would help the new City Clerk.

Chair Littlefield added that another area of interest is Victim Services given the COVID-19 pandemic restrictions and since that area has not been audited in over ten years.

Ms. Walker thanked the Committee for the input and noted she will bring the proposed audit plan for fiscal year 2021/22 back for the June meeting.

10. Nominations and election of Audit Committee Chair

Chair Littlefield turned the meeting over to Ms. Walker for this agenda item. Ms. Walker noted that with the new Audit Committee in place, Chair Littlefield suggested this would be a good time to open the Chair position for nominations. Accordingly, Ms. Walker invited the Audit Committee members to make their nominations.

COUNCILWOMAN WHITEHEAD NOMINATED COUNCILWOMAN LITTLEFIELD AS AUDIT COMMITTEE CHAIR. COUNCILMEMBER DURHAM SECONDED THE NOMINATION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

Chair Littlefield thanked the Audit Committee members for their confidence.

11. Discussion and possible direction to staff regarding potential agenda items for next Audit Committee meeting (June 21, 2021)

Ms. Walker presented the draft agenda with potential agenda items.

Adjournment

With no further business to discuss, being duly moved by Councilwoman Whitehead and seconded by Councilmember Durham, the meeting adjourned at 5:09 p.m.

SUBMITTED BY:

eScribers, LLC.