

**APPROVED MINUTES  
APPROVED ON 9/19/2016**



**CITY OF SCOTTSDALE  
AUDIT COMMITTEE**

**Monday, June 20, 2016**

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

**REGULAR MEETING**

**PRESENT:** Suzanne Klapp, Chair  
Virginia Korte, Councilmember  
Kathy Littlefield, Vice Mayor

**STAFF:** Sharron Walker, City Auditor  
Kyla Anderson, City Auditor's Office  
Lai Cluff, City Auditor's Office  
Cathleen Davis, City Auditor's Office  
Brian Biesemeyer, Acting City Manager  
Donna Brown, Human Resources  
Lauren Beebe, Human Resources  
Madeline Clemann, Transportation Department  
Brad Hartig, Information Technology  
Jeff Nichols, City Treasurer  
Joyce Gilbride, City Treasurer's Office  
Ann Henthorn, City Treasurer's Office

**GUESTS:** Jill Shaw, Heinfield, Meech & Co.

**CALL TO ORDER**

Chair Klapp called the meeting to order at 4:03 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

## **1. Approval of Minutes, Regular Meeting, April 18, 2016**

**COUNCILMEMBER KORTE MOVED TO APPROVE THE MINUTES OF THE APRIL 18, 2016 REGULAR MEETING. VICE MAYOR LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).**

## **2. Discussion Regarding Scope and Timing of the City's FY 2015/16 Financial Audit**

Jill Shaw, Heinfield, Meech & Co., highlighted items in the audit engagement letter as follows:

- Single Audit:
  - In addition to auditing the financial statements for the City, the audit will also include a single audit, which is performed because the City spends more than \$750,000 in federal awards.
  - This includes testing selected programs, which are the CDBG and Section 8 Housing Choice Voucher Program this year.
- The audit is two-fold.
  - The financial statement audit is performed in accordance with government auditing standards, including the compliance driven portion.
  - The other main objective of the audit is to examine internal controls.
- As a result of the audit, several reports are issued.
  - The audited CAFR also includes management's discussion and analysis as well as a statistical section that provides data reflecting the financial health and trends of the City. Those portions are not audited, which is disclosed in the auditor's report and is standard for all governmental entities.
  - Audit reports are prepared for each of the individual community facilities districts, MPC and SPA.
  - A report is provided regarding the Highway User Fund revenues and expenditures. An auditor's report is required for this.
  - The annual expenditure limitation report details exclusions and total amount under the allowable expenditure amount. An opinion is also provided for that report.
  - A report is conducted specifically for HUD, which is completed after the audit process.

Preliminary work started in May and the remaining work is scheduled similar to last year. Final reports are to be completed in time for the November Audit Committee meeting.

## **3. Discussion and Possible Direction to Staff Regarding Audit No. 1604 Information Technology Risk Assessment**

Lai Cluff, Senior Auditor, stated that KPMG was contracted to conduct a City-wide risk assessment of the IT systems to help identify areas of potential risk and assist the Auditor's Office with future audit planning. The scope of systems reviewed was based on feedback from the various departments about which applications and systems were critical for their business operations. The KPMG team gathered information about each system and evaluated inherent and residual risks based on specific assessment criteria and their risk model. Thirty-four systems within ten different City departments were

reviewed. The risk assessment relies on interview and questionnaire responses from the various departments as well as policies and procedures and documentation provided by City IT. The assessment did not audit systems and did not test the existing controls. The Auditor's Office will use the assessment results to develop a plan for further testing these systems.

In response to a question from Chair Klapp, Ms. Walker confirmed that there will be IT audits planned as a result of the report from KPMG. These results provide a baseline for identifying risks in the City IT systems.

Councilmember Korte noted that the chart reflects that the only department identified as high risk was the police department and asked whether this is inherent of public safety. Ms. Walker replied that the assessment reflects primarily inherent risk, and it is normal for those systems such as the 911 dispatch system to be considered very critical.

Vice Mayor Littlefield commented that the discussion helped as the report provided very little concrete information and no specific recommendations. Ms. Walker explained that because this was a risk assessment rather than an audit, specific recommendations were not provided. However, the report does include a list of observations from the KPMG team where they think improvements can be made. Future audits will provide more specific analysis regarding an application and/or a department's IT risk.

#### **4. Discussion and Possible Direction to Staff Regarding Audit No. 1606 Human Resources Compliance Programs**

Cathleen Davis, Senior Auditor, provided an overview of the report. The audit was requested by the Human Resources Director and evaluated compliance with the City's pre-employment screening and commercial driver's license (CDL) programs. Staffing Services administers the recruitment and selection process, which includes pre-employment screenings such as fingerprinting for background checks, coordinating required physical exams and drug screening, and obtaining driving records. Human Resources staff performs pre-employment screenings for an average of 499 employees each fiscal year. In addition, employees in certain positions must obtain and maintain a valid CDL.

Auditors found that while the recently hired Human Resources staff has been working to learn the applicable requirements and develop consistent procedures, further improvements and clarity are needed.

Specifically, further improvements are needed in CDL program compliance.

- Reports used to monitor CDL status, including medical certification and required random alcohol and controlled substance testing were not complete or accurate.
- Required educational material was not provided and supervisory training was not always completed.
- Some employees in CDL positions were not subject to the required drug screening prior to performing safety sensitive duties.

Also, further clarity is needed in requirements of the City's pre-employment screening program.

- Discrepancies in employment requirements existed. Job descriptions, staff actually employed in certain positions and the Human Resources department's pre-employment requirement matrix were not consistent.
- Pre-employment screening required for certain contract workers were not clearly defined, results were not verified and credit check requirements differed for similar positions.

Finally, comprehensive policies, procedures and record management could better ensure compliance with the CDL and pre-employment screening programs.

- Some user accounts for background check software may have had more system access than needed and the authorization process for software could be improved. An email account established to receive documents with sensitive personally identifiable information was not adequately secured.
- Use of a centralized volunteer database would help to ensure that only appropriate volunteer screenings were performed and written procedures for background screenings were not available to the department level volunteer coordinators and supervisors.
- Two types of records did not appear to be appropriately retained and a record series was not included in the department's records inventory. Appropriate records retention can help demonstrate compliance with the various requirements.

As reflected in the management action plan, Human Resources agreed with the audit recommendations. During the course of the audit, Human Resources staff was very responsive and proactive in beginning to implement the audit recommendations immediately.

Vice Mayor Littlefield noted that the audit was requested by Donna Brown, Human Resources Director. The request was commendable as it demonstrated an acknowledgment that the department might need assistance with problem solving in some areas.

Chair Klapp thanked Ms. Brown, noting that the department's response indicates they will be working to meet the requirements and bring records up to standard.

## **5. Presentation and Possible Direction to Staff Regarding Audit No. 1609 Transit Service Contracts**

Kyla Anderson, Senior Auditor, stated that the audit was performed to evaluate compliance with terms and effectiveness of controls established in the City's transit contracts. Scottsdale provides bus, trolley and paratransit options through contracted services that were budgeted at \$7.2 million for this fiscal year. The City's transit services are mostly funded with tax dollars, including the City and County's transportation sales tax. The audit produced the following findings:

- Cost effectiveness analyses were not documented for business decisions and associated recommendations to Council. Examples include:
  - A full cost analysis of the City's Cab Connection program has not been completed and compared to a similar program offered through Valley Metro.
  - A comparison of free to fare based trolley service has not been done since 2009.

- An analysis of the cost of bus service compared to trolley service has not been done. Auditors estimate that trolley service costs three to four times as much on a per ride and per mile basis.
- Contract administration can be improved.
  - Contract changes were enacted without proper documentation and were not reviewed for accuracy.
  - Because a grant reimbursement was not requested timely, the City did not receive a \$100,000 grant award the following fiscal year.
  - \$17,000 in monthly data service charges to add automated tracking capability to the trolleys has been paid, even though the service is not yet active.
  - Transit service contract files are not complete and centralized.
  - The Valley Metro contract does not state that it will reimburse for Cab Connection ADA-related services. Although it has done so for the past few years, funding would be more assured if documentation was included in the contract.

Ms. Anderson noted that Transportation Department management agreed with the findings. However, after the report was initially posted, the department asked to change the proposed completion date on the first finding to July 1, 2017, rather than 2016. This change will be made in the final report before it's posted to the Reports webpage.

Chair Klapp asked whether the changes occurring in the paratransit program would change the differences in cost between Cab Connection and what Valley Metro is offering. Ms. Clemann stated that paratransit costs will be reduced by approximately \$40,000 per year.

Chair Klapp noted that riders will no longer be required to exit paratransit at the City's borders to transfer to another vehicle as the system will be transferring to a Valley-wide ADA system.

Ms. Clemann stated that it is hoped that a mid-year contract amendment can be executed to reflect the changes.

Councilmember Korte expressed concern over discrepancies in the contracts, which have resulted in unnecessary increases in costs. Ms. Clemann stated that with regard to the contract change order that was not performed in a timely fashion, this may not have resulted in an actual loss, however it was not captured in the fiscal year. With regard to the \$100,000 grant, when the department sent in its application for reimbursement, they were informed by Valley Metro that the funds were no longer available, which has never occurred in the past.

Councilmember Korte noted that vehicle management system equipment has never been made operational. Ms. Clemann explained that in 2013, when the department purchased 13 new vehicles, they took suggestions from the local regional transit providers that instead of paying the company to install the (VMS) equipment on the new vehicles, that the equipment be purchased and installed locally. It then took over two years for the installation as the City of Phoenix continued to prioritize other projects. Several subsequent delays occurred with the related console installation. Through a misunderstanding, the trolley contractor signed a contract with Century Link. The Transit

department has not been able to change that agreement and has been paying for the unused services. The equipment is finally going online next month.

Chair Klapp stated that she would be happy to provide assistance on the unresolved issue with Valley Metro.

Vice Mayor Littlefield asked whether a credit can be requested for the unused Century Link services. Ms. Clemann said not to her knowledge. In addition, Vice Mayor Littlefield suggested implementing the centralization of files and contracts to ensure accurate tracking and management of updates, change orders and related items. Ms. Clemann agreed that the audit recommendations are all helpful. Transit currently has an intern experienced with data files and she will be working on compiling and organizing the department's electronic files.

#### **6. Discussion and Possible Direction to Staff Regarding Report No. 1612 FY 2015/16 Annual Follow- Up on Status of Audit Recommendations**

Ms. Walker reviewed follow-up results. When combined, the implemented and partly implemented totaled 84.7 percent. As discussed at the last meeting, the analysis has been changed for this annual report to cover three years rather than five. In looking at the previous five-year compilation, the additional improvement between three and five years is only about two percentage points. This indicates that the bulk of implementation occurs in the first three years. The first time the audit follow-up program was implemented in 2009, the implemented and partly implemented totals together were 77 percent.

#### **7. Discussion and Possible Direction to Staff Regarding Report No. 1613 FY 2015/16 Annual Report on City Auditor Integrity Line**

Ms. Walker stated that this year, there were no individual reports from the hotline. But there were a couple situations identified during audits. There were nine unique reports during this fiscal year, almost all of which were non-fraud, waste or abuse type items such as a complaint about construction debris noncompliance. Because they came in through the integrity line, they were included in the statistics. However, no further work was done, other than to contact the appropriate department and provide the information. One of the two additional situations was identified during the Cash Handling audit and the information was included within that audit report. There are a couple of items still pending consideration of more investigative work, including one that the auditors became aware of during the Transit Services audit. Transit staff identified a vendor was overbilling; they reduced the amounts being paid and discontinued using the vendor's services. The auditors' additional work will be looking back into earlier months to see if the vendor was overbilling before Transit staff found it.

Due to the way these situations came to the auditors' attention, it seems City staff doesn't realize that the Auditor's office can be of help to them in identifying the extent of loss and controls needed. Recently HR notified the executive team about a planned supervisory training. So Ms. Walker asked to be added to the agenda to provide fraud training for supervisory employees, similar to what was provided to the Audit Committee.

Chair Klapp noted that besides skills, the time to go through the records would also be a reason to contact the auditors.

## **8. Discussion and Action on Proposed 2016/17 Audit Plan**

Ms. Walker stated that preliminary topics were discussed at the April meeting. From the comments received, she drafted this proposed audit plan. The first items listed are the recurring items, including the addition of E-Verify Compliance.

In the section of audits continued from the 2015/16 Audit Plan, the new construction contract audit is the Northsight Boulevard Extension contract. Also from the previous audit plan is preventative maintenance and repair as well as the biennial certified audit. This audit was delayed to add another 6 months of data to cover a full 2 years.

New audits proposed include patrol operations as the City Manager noted in his last budget presentation. This audit is separate from the deeper dive into the existing study that Council recently requested. It will take place after the department has several months to implement its staffing reorganization and will analyze the impact on the CPSM study statistics. Also proposed are audits of pavement operations, destination marketing contract, commercial solid waste operations, benefit plan claims processing, information technology contracted audit, McDowell Mountain Golf Course lease and capital project overhead charges.

Noting the recent significant rate increase, Vice Mayor Littlefield asked whether the commercial solid waste operations audit would include a comparison to the private sector. Ms. Walker said that it would depend on the quality of the information obtained, but in the previous 2009/2010 audit, auditors were able to use pricing information from private companies for comparison.

Chair Klapp asked if the benefit plan claims processing audit would look at timeliness as well as accuracy. Ms. Walker responded that the audit would look at the metrics established for the plan administrator, such as accuracy, timeliness and compliance with the summary plan document.

In response to Councilmember Korte, Ms. Walker commented that the proposed audits are listed approximately in priority order. The mix includes contracted audits, which should allow for completion of 15 reports.

Chair Klapp asked if the mix might be changed as the auditors find out how much time is needed. Ms. Walker agreed and noted that, as in past years, if a priority comes up during the year, an audit might be replaced.

Contingency audits include selected cash handling functions, city utility costs, fleet operations, information technology contracted audit and construction contract audit. As well, other audits may be requested throughout the year or come through the Integrity line.

Vice Mayor Littlefield wanted to ensure that a follow-up process is done for cash handling procedures. Ms. Walker confirmed that this will be done as part of the regular audit follow up process.

**COUNCILMEMBER KORTE MOVED TO APPROVE THE PROPOSED FY 2016/17 AUDIT PLAN AND FORWARD IT TO COUNCIL. VICE MAYOR LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).**

**9. Discussion and Possible Direction To Staff Regarding Status of FY 2015/16 Audit Plan**

Ms. Walker stated that 13 audits were completed this year, which is fewer than the expected 14 to 15. This was due, in part, to spending additional time on helping City staff implement recommendations for a couple of the audits. Also the biennial certified audit period was extended but otherwise the report would have been completed.

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

Ms. Walker stated that an August 22<sup>nd</sup> meeting will be needed if that is the date that the Biennial Certified audit will be presented. Otherwise a meeting will not be necessary until September. After discussion the Committee decided that Monday, August 29<sup>th</sup> would be a better date for the August meeting. Ms. Walker will verify the deadline for the Biennial Certified audit and notify the Committee on whether an August meeting is needed.

**Public Comment**

No members of the public wished to address the Committee.

**Adjournment**

The meeting adjourned at approximately 4:57 p.m.

***Recorded and Transcribed by AVTronics Inc., d/b/a AVTranz Transcription and Reporting Services***