

**APPROVE MINUTES
APPROVED 11/14/2016**



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

Monday, October 24, 2016

**City Hall, 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
Cathleen Davis, City Auditor's Office
Paul Basha, Transportation Director
Dave Lipinski, Public Works Capital Projects Management

Linda Zarrella, Public Works Facilities Management

CALL TO ORDER

Chair Klapp called the meeting to order at 4:00 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

1. Approval of Minutes, Regular Meeting, September 19, 2016

VICE MAYOR LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE SEPTEMBER 19, 2016 REGULAR MEETING. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

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

Cathleen Davis, Senior Auditor, stated that the Transportation Commission's purpose is to advise City Council on matters related to the safe and efficient use of all transportation modes used as part of the transportation system in the City of Scottsdale. They also advise City Council on the community mobility element of the General Plan, the Transportation Master Plan, the City's capital improvement program and operating budget for transportation. Staff provided the Transportation Commission's most recent annual report, covering calendar year 2015, and the two prior annual reports for calendar years 2014 and 2013.

VICE MAYOR LITTLEFIELD MOVED TO RECOMMEND TO CITY COUNCIL THE CONTINUATION OF THE TRANSPORTATION COMMISSION. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

3. Discussion and Possible Direction to Staff Regarding Transportation Commission Paths & Trails Subcommittee Sunset Review

Ms. Davis stated that the Paths & Trails Subcommittee's purpose is to advise the Transportation Commission as a whole and to provide a public forum for issues surrounding paths and trails. Specifically, the Subcommittee is to evaluate the existing and reviewed plan modifications for improvements and to provide recommendations to the Transportation Commission. Staff provided the Paths & Trails Subcommittee's most recent annual report, which covers calendar year 2015, and two prior annual reports for calendar years 2014 and 2013.

Councilmember Korte noted that Paths & Trails Subcommittee does not have oversight within the Preserve, and asked whether there were cooperative efforts between the two committees. Transportation Director Basha replied that the two committees are separate; however there is cooperation where a Citywide path or trail connects to a Preserve trail.

In response to a question from Councilmember Korte, Mr. Basha stated that there is value to having the committee. For example, three years ago, there was intent to continue with using the existing sign design. The Paths & Trails Subcommittee suggested a theme for the signs and an attractive sign package was developed.

Chair Klapp asked whether the Subcommittee has continued to discuss the connection of the path on outer Via Linda connecting to Fountain Hills. Mr. Basha stated that this remains a topic of discussion without resolution within the Subcommittee and periodically is raised by members of the Transportation Commission, as recently as last week. A resolution to the issue has not been developed.

VICE MAYOR LITTLEFIELD MOVED TO RECOMMEND TO CITY COUNCIL THE CONTINUATION OF THE TRANSPORTATION COMMISSION PATHS & TRAILS SUBCOMMITTEE. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

Mr. Basha commented that in regards to the Transportation Commission, five of the seven Commissioners' terms expire in the next calendar year. Three of these have served both their terms. Chair Olmsted participated in his last meeting last week. Commissioner Stickles, who chairs the Paths & Trails Subcommittee, will reach the end of his second term next year. Vice Chair Holley's second term also expires next year. Vice Mayor Littlefield noted that nominations open on November 14th and asked whether anyone has applied for a position on the Transportation Commission. Mr. Basha replied that as of last week, no applications have been received. He clarified that it was not advertised, as there was not yet a vacancy.

4. Presentation and Discussion of Audit Report No. 1608, Preventative Maintenance and Repair

Ms. Davis stated that the audit was performed to evaluate the City's preventative maintenance and repair program, including cost and controls. The audit scope included the Facilities Management department's preventative maintenance and repair program within the Public Works Division. The Facilities Management department provides both on-demand and preventative maintenance services for City facilities and related equipment. During FY 2015/16, the department spent approximately \$8.9 million on maintenance and repair projects.

The department's management information system shows more than 5,000 preventative maintenance tasks scheduled and completed last fiscal year. The City has approximately 69,800 square feet of area maintained per facilities management department maintenance worker. The area maintained per maintenance worker drops to 35,000 square feet when accounting for all City maintenance workers. The department's FY 2015/16 maintenance and repair cost was approximately \$2.40 per square foot.

The audit found that data collection and quality controls are needed before reliable preventative maintenance analysis can be performed. Specifically, while the department purchased a comprehensive facilities management information system and hired a technical support staff member in FY 2010/11, these resources have not been fully used to manage and evaluate the program. For example, the building and equipment inventory is incomplete, labor hours have not been consistently recorded and material and supply costs are not accurately or completely recorded.

Information system controls are not in place to protect data integrity and reliability. The preventative maintenance system module is also being used to track other reoccurring tasks. The Facilities Management department has not conducted performance analysis for its preventative maintenance activities. After establishing related performance objectives last fiscal year, the Facilities Management department did not conduct a cost analysis for its preventative maintenance program. For example, two of the department's objectives included measuring the positive impact and calculating the cost of the program. However, neither the impact nor the costs were measured by

department management, as they were unsure how to quantify those costs. Industry best practices can help guide the department's efforts.

A preventative maintenance strategic plan, policies and procedures can aid in effective resource management. The department does not yet have a strategic plan for its preventative maintenance and repair program and has not yet developed comprehensive written policies and standard operating procedures to guide day-to-day operations. Currently, all preventative maintenance work orders are prioritized as urgent. However, department management agreed that all are not equally important. The department has not conducted a recent staffing analysis for its skilled trade positions to assess its resource analysis. Prior analyses completed do not account for more than 40 additional maintenance technicians working throughout the City. The department measures its timely completion performance after excluding cancelled work orders, which include tasks that were due but not scheduled for staff to complete.

As seen in the management action plan, Facilities Management agreed with the audit recommendations.

Linda Zarrella, Facilities Management Director, commented that the report validates what the department is doing with its preventative maintenance program. The auditor is not critical of staff or how the facilities management work is performed, but is critical of its administrative procedures. Staff agrees with the assessment. The software system was originally purchased for space planning efforts six fiscal years ago. It was used extensively in the relocation and downsizing of some facilities. Staff had the foresight to purchase a system that is expandable and staff is moving forward to use the system more effectively. They have now included on-demand maintenance and preventative maintenance and are at the beginning stages of data collection. An analysis based on current data would not provide a reliable result.

Staff agrees that the preventative maintenance program will benefit from the recommendations in the report. The additional 40 maintenance staff included in the staffing analysis also do not account for the square footage, such as the parks and water resources that these specific staff are hired to maintain.

Vice Mayor Littlefield commented that preventative maintenance throughout the City will become more critical as its infrastructure ages. It is vital that the City maintain a strategic plan and ongoing policies and procedures for maintenance. She urged that input to the system needs to be maintained on a timely basis.

Councilmember Korte addressed follow-up and requested a progress report. Ms. Walker stated that quarterly audit follow-ups are conducted. Even though the completion projection is a couple years out, follow up reports typically begin at six months post audit. The Audit Committee is welcome to request that the department come back to provide an update. Ms. Walker also commented that the 3 million square feet used in the benchmark analysis was obtained from the department's system and, based on auditors review, does include all significant city buildings, including park and water facilities.

Vice Mayor Littlefield suggested that the department ensure an adequate depth of staff in order to maintain the ability and knowledge for existing systems and equipment.

COUNCILMEMBER KORTE MOVED TO ACCEPT AUDIT REPORT NO. 1608. VICE MAYOR LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

5. Presentation and Possible Direction to Staff Regarding Audit No. 1615, Northsight Boulevard Extension Construction Contract

Ms. Walker commented that this audit was discussed at last month's meeting and is submitted with the revised management action plan provided by the Acting City Manager and the Public Works Director. She noted that Dave Lipinski, Capital Projects Management (CPM), is also present if there are any questions.

Vice Mayor Littlefield stated that the report seems to indicate that bills were still being paid without verification that the work has been completed and the mark-up is correct. Ms. Walker stated that this project occurred during the same period as the previously audited construction contract. A second project from the same period was chosen since the department had assured the Audit Committee that one was an isolated instance. The department's previous approach considered the CMAR contract more as a unit cost-based pricing as opposed to recognizing that certain costs, like subcontractor costs, were supposed to be verified. Since then, the department has recently completed a 2-day training on these contracts and is making changes to its procedures. Mr. Lipinski added that there have been a number of changes in processes and procedures since this time. Since the recent training, CPM is reviewing its CMAR contract template section-by-section to improve and clarify it.

Committee members agreed to accept the audit report with the revised response.

6. Presentation and Discussion of 1st Quarter FY 2016/17 Follow Up on Status of Audit Recommendations

Ms. Walker stated that the recommendations that have been fully or partly implemented and those in progress for this quarter and the same quarter last year both totaled approximately 91 percent. This quarter, substantial progress was made in several areas. Specifically, at the McCormick Stillman Railroad Park, staff prioritized the audit recommendations and made substantial process. The Library made significant progress in implementing audit recommendations. And the Photo Enforcement program completed the last two pending item. Significant improvement was also seen in Community Services locations' cash handling procedures.

7. Discussion and Possible Direction to Staff Regarding 3rd Quarter CY 2016 Taxpayer Problem Resolution Officer Report

Ms. Walker highlighted one particular comment in this quarter's report. Audit staff followed up with Business Services, who indicated they have four remaining tax audits from the period prior to the State Department of Revenue taking municipal tax audit administration. Over the next few months, tax survey responses may be received for these, but otherwise the Tax Audit section will not be needed in the quarterly report.

Chair Klapp noted that there has been some discussion about the State getting rid of auditors and asked whether this would include tax auditors. Ms. Walker stated her

understanding that this is a concern. However, the City still has the ability to audit a taxpayer within the City with permission from the State.

8. Discussion and Possible Direction to Staff Regarding Status of 2016/17 Audit Plan

Ms. Walker stated that for the contracted IT audit topic, staff is just completing the contracting process for an audit of software acquisition and implementation. There are areas in the City that are just recently implementing new software programs and this will be an area of focus.

Chair Klapp asked whether departments consult in the IT department prior to purchasing software programs. Ms. Walker stated that departments have their own system integrators and technology staff. And there is also IT department involvement or approval for technology purchases. The audit will help determine how the process works.

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

The next scheduled meeting is Monday, November 14th, primarily to receive the annual financial audit report before it goes to the full Council. The destination marketing contract audit is also expected to be ready.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 4:45 p.m.

SUBMITTED BY:

eScribers, LLC