

APPROVED MINUTES APPROVED ON 03/16/2020



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING**

Monday, January 27, 2020

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

PRESENT: Kathy Littlefield, Chair
Virginia Korte, Councilmember
Solange Whitehead, Councilwoman

STAFF: Sharron Walker, City Auditor
Kyla Anderson, Senior Auditor
Paul Christiansen, Senior Auditor
Cathleen Davis, Senior Auditor
Brad Hubert, Senior Auditor
Shelby Trimaloff, Exec. Asst. to City Auditor
Christy Alonzo, Police Department
Susan Conklu, Transportation Department
Tiffany Domingo, Scottsdale Airport
Helen Gandara, Police Department
Ratna Korepella, Transportation Department
Jeff Nichols, City Treasurer
Scott Popp, Police Department
Alan Rodbell, Police Department
Rich Slavin, Police Department
Rachel Smetana, Mayor's Office
Dan Worth, Public Works

CALL TO ORDER

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

PUBLIC COMMENT

There were no members of the public who wished to speak

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, November 12, 2019

Chair Littlefield called for comments/changes to the minutes.

COUNCILWOMAN WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE NOVEMBER 12, 2019 REGULAR MEETING AS PRESENTED. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

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

Brad Hubert, Senior Auditor, stated that the purpose of the Commission is to advise City Council on items such as the Airport capital improvement program, its financial plan, rules, regulations, minimum operating standards, environmental policies, aviation-related development proposals or land use policies. It also advises on fees imposed by the City and lease policies of City-owned property at the airport. The Audit Committee is to evaluate whether the board or commission being reviewed is serving its intended purpose; whether the board or commission's purpose should be maintained or modified; and whether the purpose has been served or is no longer required. Specifically, the Audit Committee is to recommend to the City Council whether to continue or terminate the board or commission. Mr. Hubert noted that Tiffany Domingo, Scottsdale Airport, was present to answer any questions. There were no questions or comments.

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

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

Mr. Hubert noted that this agenda item was continued from the November meeting when it was initially discussed. The Paths and Trails Subcommittee evaluates existing and planned modifications and improvements for sidewalks, bike paths, lanes, routes, equestrian paths, and pedestrian bike facilities throughout the City. They work with the Transportation Commission as well as the Parks and Recreation Commission. Mr. Hubert introduced Senior Transportation Planner Susan Conklu, Transportation Department, to discuss what the subcommittee does. Ms. Conklu provided an overview of the

Subcommittee's activities, noting that it allows discussion of pedestrian, bicycle and equestrian issues in more detail than the Transportation Commission.

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

4. Informational Update Regarding FY 2018/19 External Financial Audit Related Items

Sharron Walker, City Auditor, stated that in the past, the Audit Committee has asked to be made aware when final items related to the financial audit are completed. In addition, the items are easily available to the public as they are attached to the meeting agenda.

5. Discussion and Possible Direction to Staff Regarding Audit No. 2005, Facilities Management Contract Administration

Paul Christiansen, Senior Auditor, stated that the audit evaluated Facilities Management's controls over contract administration, particularly over cost effectiveness and compliance. The Facilities Management department provides on-demand and preventative maintenance services and life-cycle equipment replacements for the City's facilities. The audit focused on the use of contractors to provide certain services, including custodial and specialized services. Out of the \$20 million annual budget, approximately \$3.3 million is allocated for these contracted services. To evaluate these contracted services, the audit looked at three contracts: a custodial contract, a fire systems contract and a roofing contract.

First, the audit found that Facilities Management did not ensure that payments matched contracted prices and as a result, one contractor was overpaid by \$164,000 from July 2017 through November 2019. This included about \$123,500 in base fees that did not agree with the contracted prices. It also included seasonal services that were billed year-round, several duplicated work order services, and there appeared to be overbilling for special event services as well. In addition to these overpayments, for the 13 contracted repair or maintenance projects examined, the pricing quote was retained for only 3. The pricing quote is important because it would document the agreed upon work and cost for individual projects. For the ten projects that did not include this pricing quote, the payments totaled \$201,000. Auditors were able to verify that payments matched what the contractor agreed to; however, Facilities Management did not have the documentation available.

As an underlying cause of these issues, the audit found that Facilities Management had no written policies and procedures and provided only limited guidance and training to its staff. The contract administrators are fairly new in their positions and three out of four of them had not received training on the City's contract administration requirements. The audit recommends that Facilities Management develop written policies and procedures and provide training to ensure that billed amounts match the contract amounts and that the pricing quotes are retained in the contract files to demonstrate that the work is being

performed as expected and for the agreed upon price. The audit also recommended that Facilities Management work with the City Attorney's Office to recover any overpayments.

Second, the audit found that contracted performance was not effectively monitored, and performance problems were not effectively addressed. For July 2017 through October 2019, auditors found 73 work orders documenting custodial problems at 14 different City facilities. A 2010 audit of custodial services noted similar problems and made recommendations to better monitor custodial services contractors' performance. Facilities Management began implementing those controls; however, they were not formalized into policies and procedures and those practices ceased. This audit recommends that Facilities Management develop policies and procedures and provide training to document contracted requirements and performance measures, monitor the contracted performance, and consistently and effectively address performance issues, including using potential financial and other penalties when appropriate.

A third area examined contract administration documentation. Much of the necessary documentation was not being maintained in the project files, including copies of the signed contracts, contract extensions, pricing changes, change orders, additional service arrangements, project scopes of work or quotes, warranties and annual insurance certificates. Management has not consistently reviewed project and contract files to ensure that the documentation is complete and accurate. Only 38 percent of projects from July 2017 through October 2019 were reviewed and marked as complete. Since July 2018, the percentage dropped further, to only 8 percent. Facilities Management did not have established policies and procedures and consistent documentation for its project prioritization and planning and scheduling process. The audit recommends that Facilities Management develop written policies and procedures that outline necessary contract administration documentation, train contract administrators on these requirements and develop a monitoring process to make sure the procedures are operating. They should also timely and consistently review the contract administration files for accuracy and develop written policies and procedures for prioritizing, planning and scheduling its contracted services.

Management agreed with the findings and plans to implement most recommendations by the summer and to finalize their documentation methodology by the end of the year.

Chair Littlefield asked for Mr. Worth's comments. Dan Worth, Public Works director, acknowledged that several areas are in need of improvement, including processes, documentation and training. Many of these issues have already begun to be addressed, in some cases as a result of the previous Preventative Maintenance audit that was done in 2017. He stated the department is in the process of establishing a uniform documentation system using SharePoint and will work to recover overpayment amounts. Mr. Worth commented there's about \$30,000 of that where he believes the City received the services although there's no documentation the services were properly requested. Mr. Worth noted that the City's contract administrators training was discontinued several years ago, and Facilities has been using a third-party training program that includes contract administration. Regarding contract penalties, he commented that they had 12 other custodial contracts at the time and another one took priority to be addressed. The department is also taking steps to streamline to fewer custodial contractors and contracts. Mr. Worth reiterated that the department implemented recommendations from the 2010 audit, including developing a network of onsite building liaisons. This worked for a period

of time, but eventually tailed off. The real effort will be to cover these contract enforcement requirements with the staff that Facilities has available.

Councilmember Korte asked if understaffing has contributed to the lack of oversight. Mr. Worth said that in the past, more than one contract coordinator handled custodial contracts. At this time, there is only one coordinator handling all these contracts. Councilmember Korte noted there are some egregious oversights and mishandling of contracts, and she would like an update on progress by the end of the year. Ms. Walker stated that audit staff conduct regular follow ups and she will ensure that when this follow up is conducted, it is pulled out for presentation to the Committee. Councilwoman Whitehead commented that it might be helpful to receive an update of all the different audits at one meeting.

In response to a question from Councilwoman Whitehead, Mr. Worth stated that a City contract administrator training program out of the Purchasing department stopped about 2016. He suggested loss of key staff likely caused the program's demise.

Ms. Walker noted that instructors included Purchasing for different types of procurements, the Attorney's office going over contracts and her office had an hour to discuss what auditors looked for. The Purchasing director has indicated an interest in getting it started again but has had some other priorities to address.

Chair Littlefield agreed that the training program should be reinstated so that people know what they are supposed to do. She also commented on the report finding that many older contracts have never been closed out, and there should be a closeout process to better allow focus on active contracts. Mr. Worth commented that the older contracts are not consuming significant time. It is just a matter of verifying completion. Chair Littlefield also agreed with the recommendation to have an update by the end of the year to gauge progress.

In response to a question from Councilwoman Whitehead, Mr. Worth noted that SharePoint is a software adopted by the City IT department that is being implemented across City departments.

Ms. Walker commented that, regarding training, the audit report notes that the contract administrators academy was discontinued sometime in 2016. We would expect that supervisors would have stepped in to train their staff on the City's Administrative Regulation. While the external training program may include some contract administration, there will need to be in-house training as well for staff to learn the City's own requirements.

COUNCILMEMBER KORTE MOVED TO ACCEPT AUDIT NO. 2005. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

6. Discussion and Possible Direction to Staff Regarding Audit No. 1907, Police Special Revenues

Cathleen Davis, Senior Auditor, stated that the audit was performed to evaluate management controls over sources and uses of special revenues, such as RICO,

donations, 30-Day Tow, etc. The Police Department has ten special programs in the City's special programs fund. Revenues have ranged from \$1.2 to \$1.6 million, and expenditures ranged from \$1.4 to \$1.6 million in the last two fiscal years.

The audit found that RICO community grants appear to be donations, and other program aspects can be better managed. Specifically, over the past two fiscal years, the department paid \$21,000 to four organizations as community grants. However, standard grant processes were not followed, such as applications, grant agreements and monitoring. Since 2016, the department paid \$14,200 to the Special Olympics of Arizona, which did not appear to be for law enforcement purposes. The department also spent \$1,500 of general funds for related training, which did not appear to be job-related or have a clear benefit to the City. Over the past three fiscal years, the department submitted RICO budgets ranging from \$1.0 to \$1.8 million, significantly lower than the balance held in third-party accounts, which ranged from \$3.1 to \$4.2 million. Actual expenditures during the last two fiscal years were \$552,000 and \$463,000. Other RICO program controls, including separation of duties, can be improved. Specifically, one assigned detective creates, updates, reports and retains the records of seized assets as well as coordinates forfeited asset sales and deposits the proceeds into the county bank account. Further, RICO reimbursement checks were not directed to Remittance Processing for receipt and deposit, and the buy fund safe combination has not been changed after personnel changes. The special enforcement checking account balance may be higher than necessary, and authorized signers are not kept up to date. Additionally, the Commander over this program does not receive a copy of the bank statements.

The second finding addressed a department bank account that exists outside the City Treasurer's Office. These monies were not budgeted, and internal controls can be improved. The Police Department's Cadet program bank account at a local credit union existed without oversight of the City Treasurer's Office. This combined checking and savings account contained \$12,488 as of November 30, 2019. The City's charter and code state that the City Treasurer shall receive and have custody of all the City's money. Also, the department had not included monies in this bank account as part of the City's annual budget process. Department staff had not implemented internal controls or retained complete documentation for the program's receipts and expenses, and program records retention needed improvement.

Finally, management controls over donations, cash handling and expenditure approvals can be improved. The department does not have transparent, public procedures for donations. Publicly available information regarding how the Police Department accepts and processes donations, such as providing an acknowledgement letter, would decrease the risk of loss or theft. The department indicated they believe adding this to the website would give the appearance of soliciting donations. Further, the department often did not retain signed copies of donation acknowledgment letters and retained unredacted donor check copies. Staff handling the 30-Day Tow program receipts did not immediately account for them in the City's cashing system. As well, they were unable to account for six manual receipts, resulting in \$750 potentially not being recorded in the system and deposited. The 30-Day Tow program has limited service hours for individuals to retrieve their impounded vehicles, and some Police special program expenditures did not have appropriate documented operational approval. The department agreed with the audit recommendations.

Alan Rodbell, Police Chief, commented that he did not agree with the complete narrative, but there is agreement with the recommendations, which they intend to follow. Many of the recommendations have already been completed. The Cadet program used to be the Explorers, which was part of the Boy Scouts. It has since become a City program and he acknowledged that it needs to be tightened up. They agree that the 30-Day Tow program should have longer hours, unfortunately, staffing limits operations to four days a week. They will continue to look for a solution to this. In terms of the donation process, by law, any city is eligible to donate up to \$25,000 in community grants. The department tries to provide five grants per year. Chief Rodbell noted that the Special Olympics is a national police charity and discussed the cultural importance of police participation. Unfortunately, this year, the department has no additional funding in the RICO fund to be able to provide community grants. Councilwoman Whitehead agreed on the importance of supporting Special Olympics.

Councilmember Korte expressed concern about the separate Cadet program account outside of the City Treasurer's purview. While she loves Special Olympics, there are a number of worthy nonprofits that should have the opportunity to apply for a grant. The Special Olympics is a Phoenix-based nonprofit, not Scottsdale-based. Chief Rodbell agreed that the application process needs to be reinstated. Chair Littlefield supports Special Olympics, however, a process for other organizations to apply is needed. She concurred that moving the Cadet program account under the purview of the Treasurer's Office is the proper approach.

COUNCILMEMBER KORTE MOVED TO ACCEPT AUDIT NO. 1907. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

7. Discussion and Possible Direction to Staff regarding 2nd Quarter FY 2019/20 Follow-Up on Status of Audit Recommendations

Ms. Walker stated that 67 percent of audit recommendations in the latest follow up have been implemented or partly implemented and 27 percent were in progress. Fire, Business Services and Human Resources all intently worked on implementing their audit recommendations.

Chair Littlefield noted that the IT Department has a large number of recommendations either partially implemented or not implemented and asked if there is a problem with the recommendations or how they work to get these done. Ms. Walker stated that the recommendations in the IT audits are based on IT standards. She hires consultants to do these audits, and they apply common standards, like NIST and COBIT. For many of the issues, the department response is, "when we get more staffing, we will do this." This is not really an acceptable answer, as it does not address the inherent risk in not implementing the recommendations. She has discussed with the City Manager that this department is one of the slower ones to implement changes.

Chair Littlefield asked if there any steps the Audit Committee can take towards enforcement. Ms. Walker stated that the departments report to the City Manager and, to the extent that Audit Committee members have concerns, they can be expressed to him.

8. Informational Report Regarding 4th quarter/Annual CY 2019 Calendar Year 2019 Taxpayer Problem Resolution Officer Report

Ms. Walker stated that a few years ago, the City Auditor helped resolve taxpayer problems, but now this just involves reporting on citizen surveys for tax related services they receive from the City.

Councilmember Korte asked if the negative rating is a trend or just typical. Ms. Walker said it is not that unusual for the Tax Services area to have six negative comments over a year. Overall, this represents four percent of the responses, which is quite a low number.

9. City Auditor Updates, Including Status of FY 2019/20 Audit Plan

Ms. Walker stated that the Audit Plan is on target for this time in the year, completing one to three reports every couple of months. At this point, it looks like one planned audit may be completed in the summer.

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

Ms. Walker stated that no audits will be ready for a February meeting. A couple are expected for completion in March, and potential audit topics will likely also be presented in March. There will likely be no meeting in April.

Adjournment

With no further business to discuss, the meeting adjourned at 4:59 p.m.

SUBMITTED BY:

eScribers, LLC