

APPROVED MINUTES APPROVED ON 6/15/20



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING**

Monday, March 16, 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
Brad Hubert, Senior Auditor
Kyla Anderson, Senior Auditor
Shelby Trimaloff, Exec. Asst. to City Auditor
Brittney Williams, Heinfeld Meech
Karen Churchard, Tourism and Events Director
Brent Stockwell, Assistant City Manager

CALL TO ORDER

The meeting was called to order at 4:11 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, January 27, 2020

Chair Littlefield called for comments/changes to the minutes.

COUNCILWOMAN WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE JANUARY 27, 2020 REGULAR MEETING AS PRESENTED. CHAIR LITTLEFIELD 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 Audit No. 2101 FY 2019/20 External Financial Audit

Sharron Walker, City Auditor, introduced Brittney Williams, Heinfeld Meech. Ms. Williams stated that Heinfeld Meech has been engaged by the City for the financial statements of FY 2019/20, which includes the single audit, the schedule of expenditures of federal awards as well as the HUD REAC report. They will also issue an opinion on the annual expenditure limitation report, the MPC, SPA and all five CFD annual financial reports as well as issuing a Highway User Revenue Fund audit report. The single audit report includes individual opinions on internal control over financial reporting in accordance with Government Auditing Standards (GAS) and internal control over compliance related to major federal programs. The plan, scope and timing are very similar to previous years. Fieldwork has been scheduled beginning in June throughout the summer, with final fieldwork in September. Heinfeld Meech engages with external third-party service providers for certain valuation services and bank account confirmation. IDEA software is used to analyze data. Many of the audit processes are conducted remotely and efforts are made to minimize staff interruptions. Further, the federal government is anticipating a lot of late filings, so there may be leniency with the single audit deadlines.

3. Discussion and Possible Direction to Staff Regarding Audit No. 2006, Scottsdale Museum of the West Contract

Brad Hubert, Senior Auditor, stated that in 2013, the City entered into a management agreement with Scottsdale Museum of the West, Inc., to serve as the museum manager for Western Spirit: Scottsdale's Museum of the West. Since that time, the management agreement has been amended five times, most recently in October 2017. The audit was performed to evaluate compliance with the contract terms and whether the contract is administered effectively.

The audit found that contract administration is generally effective, although there were a few areas for improvement. Although the contract states that the museum manager is responsible for all utilities except outdoor water service at the Museum facilities, the City has continued to pay for electricity at the former Loloma Transit Station building. The building is included in the management agreement and is used as the Museum's

administrative offices. Over the past six years, the City paid more than \$77,000 for these electric utilities.

While maintenance responsibilities are spelled out in the contract, the audit found a few items could be more clearly defined. For example, City maintenance staff have responded to calls for service on drains, fixtures and hot water heaters although the contract only requires the City to maintain the water lines, valves and waste pipes within the walls as well as traps and fixture hangers. Also, the contract lists both the City and the Museum manager as being responsible for the humidity control system. While the cost of maintaining these non-contracted items has been minimal to date (less than \$1,500), the responsibility for the items should be clarified because maintenance and repair costs will likely increase as the building ages. The required reports provided by Museum management were not always complete or timely. Although a good deal of information was provided as part of the annual plan, it did not always include the level of detail required by the contract, such as a complete inventory of artwork and artifacts. Annual performance reviews were not submitted but instead were considered to be covered by the annual plan submittal.

The audit recommended the contract administrator ensure that utility payments are discontinued for the Museum administration building and request reimbursement for the payments already made. It also recommended that she periodically review maintenance work orders and develop written clarifications for the items that are unclear. Further, the contract administrator should work with the Museum manager to ensure the submitted reports include all required elements and are submitted timely. The management response agreed with the recommendations and the contract administrator will work towards implementation.

Chair Littlefield invited Karen Churchard, Tourism and Events Director, to make comments. Ms. Churchard stated that she is working with the City Treasurer's, City Attorney's and City Manager's offices regarding the past electrical costs and a sixth amendment to the agreement to further clarify it. She thanked Audit staff for providing clarification on issues that had previously resulted in some confusion. The plan is to present the amended agreement to City Council in August or September.

Councilwoman Whitehead commented that given the current temporary shutdown of businesses and the Museum, they may need an extension on the upcoming payment.

Chair Littlefield agreed with the audit findings. She commented that clarifying the responsibilities of the Museum and the City would be helpful, and deadlines should be calendared to avoid issues. Also, a more complete analysis of the performance progress against required goals, a list of who owns what would be useful, and requiring a quarterly reporting of donations, as stipulated, should continue. This is a business contract between the City and the Museum and should be handled in a businesslike manner. The Museum should submit the required financial audit reports and statements in a timely manner, so that the contract administrator is aware of any possible concerns for the coming year.

Brent Stockwell, Assistant City Manager, commented that it is important to know that the agreement was initially written before the Museum was even created. The multiple amendments have been to address specific issues. Now that the Museum has been operational for a number of years, it would be helpful to have a completely restated agreement that clarifies all the issues and brings them in line with similar types of

agreements being managed. Staff has been working to bring all the different and related agreements in line so that they have similar requirements, due dates and expectations. This agreement has not been updated yet. But one of the most recent amendments clarified the City's requirements and the Museum's requirements, though we duplicated one. So we appreciate this, and staff has been able to build on different audits, like Experience Scottsdale, Scottsdale Arts and now this one.

COUNCILWOMAN WHITEHEAD MOVED TO ACCEPT AUDIT NO. 2006. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

4. Discussion and Possible Direction to Staff Regarding Potential Audit Topics for FY 2020/21

Ms. Walker stated that as the attachment for 20/21 shows, there will be more recurring annual or periodic reports happening next year. The Crime Statistics Reporting audit will also be completed next fiscal year rather than by June 30. For the last couple years, contingency audits that are not performed in the current year typically carry over to the next year. So for 20/21 that includes Code Enforcement Operations and the Housing Rehab & Repair Programs. Ms. Walker noted that the second page lists audit topics according to their risk ratings. As discussed in previous years, this is a comparative ranking and not as precise as the numbers make it appear. The auditors apply ratings to several different risk categories, then these numbers are weighted and averaged. The resulting numbers are comparative rankings. The second column is the number of years since last audited, which is a good indicator. For example, it has been more than ten years since Neighborhood Planning, which includes Code Enforcement, was last audited. The third column is a count of the number of high areas that each had among the five major areas that were rated. So, this list is the starting point for evaluating potential audits. Audit Committee input is welcomed on this preliminary list, and it will be brought back by the next meeting with some of the blank spaces filled in.

Councilmember Korte referred to the Planning department topic and asked what the rates and fees analysis is. Ms. Walker stated that the Planning Department has many rates and fees they charge, and the potential audit would look at how they are being developed. Councilmember Korte asked if it compares rates and fees to other communities. Ms. Walker confirmed that, in addition to reviewing rate calculations, audits sometimes include comparisons to other cities in the Valley as a market comparison. Councilmember Korte also noted that there have not been audits of Neighborhood Planning (including code enforcement) nor Economic Development in ten years. She thinks that would warrant a higher prioritization, particularly resident concerns about lack of code enforcement and an analysis of return on investment for economic development.

Councilwoman Whitehead shared Councilmember Korte's concerns regarding the need for a code enforcement audit, noting this is one of the areas of biggest complaint. Chair Littlefield stated that she had similar thoughts regarding Neighborhood Planning and Economic Development. In addition, she noted there are departments in the City who have or will have new management and these might be worth taking a look at as well. This includes Prosecution, Library, City Clerk next year, Victim Services, Human Services

and Public Records management. As well, she agreed the Housing Rehab and Repair Program and the Belleview property are other areas.

5. Discussion and Possible Direction to Staff Regarding City Auditor Updates, Including Status of FY 2019/20 Audit Plan

Ms. Walker said they are generally on track with the typical timeline. They are one audit behind what was planned for this year. The crime statistics audit will likely be pushed into the summer timeframe since there are also two other police audits this year. They will likely complete 14 reports this year.

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

Ms. Walker stated that there will be no reports ready for April, so the next meeting will be on May 18, as shown on the draft agenda.

Adjournment

With no further business to discuss, the meeting adjourned at 4:39 p.m.

SUBMITTED BY:

eScribers, LLC