

APPROVED MINUTES APPROVED ON 08/17/2020



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING**

**Community Design Studio - Nave
7506 E. Indian School Road
Scottsdale, Arizona 85251**

Monday, June 15, 2020

PRESENT: Kathy Littlefield, Chair
Virginia Korte, Councilmember
Solange Whitehead, Vice Mayor

STAFF: Sharron Walker, City Auditor
Lai Cluff, Senior Auditor
Brad Hubert, Senior Auditor
Shelby Trimaloff, Exec. Asst. to City Auditor
Steve Geiogamah, Tourism Development Manager
Gary Mascaro, Aviation Director

GUESTS: Linda Dillenbeck, Tourism Development Commission Chair
Sherry Henry, Tourism Development Commission Vice Chair
Elizabeth Ross

CALL TO ORDER

The meeting was called to order at 4:01 p.m. A formal roll call confirmed the presence of all Committee Members as noted above, with Councilmember Korte and Vice Mayor Whitehead attending telephonically.

PUBLIC COMMENT

There were no members of the public who wished to speak and no comments were submitted online.

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, March 16, 2020

Chair Littlefield called for comments/changes to the minutes.

VICE MAYOR WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE MARCH 16, 2020 REGULAR MEETING AS PRESENTED. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

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

Brad Hubert, Senior Auditor, stated that the purpose of the Tourism Development Commission is to serve as an advisory board to City Council on matters concerning the expenditure of revenues from the Special Revenue Fund for Tourism Development, specifically recommending that the City Council approve, give conditional approval or denial for all uses of funds from the Special Revenue Fund. It also prescribes the application procedure and establishes criteria for determining how funds are allocated, while reviewing the City's long-range plans for the tourism industry. The Commission makes recommendations regarding an ongoing five-year strategic tourism development marketing plan. The Audit Committee is asked to evaluate whether the Commission is serving its intended purpose, whether its purpose should be maintained or modified and whether the purpose has been served or is no longer required. Specifically, the Audit Committee is asked to recommend to the City Council whether to continue or terminate the Commission. Chair Linda Dillenbeck and Vice Chair Sherry Henry were present, with Steve Geiogamah, Tourism Development Manager, attending telephonically.

Ms. Dillenbeck said the Tourism Development Commission is comprised of very diverse members who bring lots of different perspectives to its decisions. They take great care to ensure that recommendations made to City Council will deliver on an experience while increasing the bed taxes. The Commission has worked with staff and Council member input to make their (funding) criteria even stronger. Ms. Henry added that Ms. Dillenbeck has done a phenomenal job as Chair, and the Commission does amazing things for Scottsdale.

Vice Mayor Whitehead stated that she has worked with the Tourism Development Commission. She agrees with the comments made and is grateful for their work. Councilmember Korte concurred with those comments, noting the Commission members work very hard to make the right decisions to support Scottsdale's tourism industry.

Chair Littlefield asked whether the Commission has had discussions regarding the impacts of COVID-19 currently and going forward. Ms. Dillenbeck responded there have been many such discussions. With the anticipated reduction of \$4 million in bed taxes, the Event Fund will be the most impacted, and it funds community events, new events, matching fund events and multiyear events. The Commission has worked with the City's tourism office to add additional parameters and criteria for the importance of what can be funded.

They typically have \$1.9 million but this year have \$31,000 for funding events such as ArtWalk, Parada Del Sol and the Culinary Festival. Fortunately, several years ago, the Commission asked City Council to allow a portion of the carryover funds to be put into a contingency fund for just this type of disaster. So the Commission will have \$2.5 million. But they don't want to spend it all because running a deficit is projected for the next couple of years, and the number one priority is funding the debt service. Ms. Dillenbeck noted that it is important to reach out to Council because the Commission's job is to provide input in line with what the Council wants. Their goal is to try to fund with the dollars available, but to make sure the funding is having an impact on the bed tax and community events. They have reached out to the City Manager, Council members and Experience Scottsdale for input.

In response to Chair Littlefield, Ms. Dillenbeck explained that most funding requests come in the fall, with event producers required to make their request 90 days in advance. Of the funded requests, there are five historic events that have been in the community for more than 40 years, which is the number one criteria. Four of those come up for renewal this year. The Commission has reached out to these organizations to inform them that full funding (\$75,000) may not be available. Ms. Dillenbeck surmised that event producers are waiting to determine what they can do in terms of crowds this fall and that is why the current list is previously funded events.

VICE MAYOR WHITEHEAD MOVED TO RECOMMEND TO THE CITY COUNCIL TO CONTINUE THE TOURISM DEVELOPMENT COMMISSION. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

3. Discussion and Possible Direction to Staff Regarding Audit No. 2002, E-Verify Compliance FY 2019/20

Mr. Hubert stated that since 2010, the State has required that Arizona government agencies audit their contractors and subcontractors to ensure use of the federal E-Verify system to confirm employment eligibility for employees working on government contracts. The most recent audit of FY 2018/19 contracts found that the selected City contractors and subcontractors are generally using the E-Verify program for workers on City of Scottsdale contracts. Five City contractors and 11 of their subcontractors were selected for testing. From these, 84 employees were hired after the state requirement went into effect. Four of the five contractors and seven of 11 selected subcontractors had performed the E-Verification of selected employees before they were contacted for the audit. The fifth contractor and the remaining four subcontractors provided documentation dated after the audit request rather than at the original dates of hire.

Audit staff received E-Verify documentation for 82 of the 84 sampled employees. For the two employees for whom documentation was not provided, one contractor did not have documentation and was unable to obtain it because the employee no longer works for the company. For the second, a subcontractor explained that they used a payroll processing company to do their E-Verify. The payroll processing company had since gone out of business before all the records were received. Auditors did not make any recommendations in the audit because the Purchasing department has implemented previous recommendations and is actively reminding contract administrators and City contractors of the E-Verify requirement.

Vice Mayor Whitehead asked about potential repercussions if a company does not conduct the E-Verify until after they are informed of a pending audit. Sharron Walker, City Auditor, said the statute requires that the City only use contractors and subcontractors who use the E-Verify program. Most of those who have not initially used it tend to be smaller companies that may not be as familiar with requirements. There continues to be progress in more contractors and subcontractors becoming aware of the requirement.

VICE MAYOR WHITEHEAD MOVED TO ACCEPT AUDIT NO. 2002. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

4. Discussion and Possible Direction to Staff Regarding Audit No. 2004, Airport Terminal Area Redevelopment Construction Contract

Lai Cluff, Senior Auditor, stated that the Airport Terminal Area Redevelopment project was selected for this year's construction contract audit. This project included the demolition of the two existing buildings and construction of two executive hangars and a new Aviation Business Center. The Aviation Department managed the project, hiring a consultant for construction administration and using a Construction Manager at Risk (CMAR) delivery method for construction. Auditors reviewed the CMAR construction contract, including procurement, contract compliance and effectiveness of contract administration. The contract totaled approximately \$22.5 million.

The audit found that additional cost controls related to the development of a guaranteed maximum price (GMP) and the monitoring and verification of amounts invoiced should be adopted. During review and negotiations of the GMP, the general conditions budget was approved with limited information to support the amounts requested. General conditions costs typically include project costs not incorporated into the completed construction work, such as project supervision, temporary offices, project fencing and temporary utilities. The audit recommends that supporting details be reviewed and a detailed budget of allowable costs be incorporated into the contract. The audit also recommends that GMP negotiations be documented, including the resolution of differences or issues noted by the independent cost estimator reviews.

Additional controls should be adopted to monitor and verify construction costs throughout the project. Auditors noted that approximately \$1.3 million in estimated amounts for probable work were incorporated into the subcontractor costs, however these amounts had not been separately identified to be monitored. These were referred to as bid plugs in the project documents. For ten large subcontractors reviewed, auditors were only able to verify that 46 percent of the estimated work had been added to the subcontracts. The remainder of the budgeted bid plugs appeared to have been used as discretionary contingency for the CMAR. Similarly, auditors found that supporting details were not provided for the use of other allowances.

The department should establish processes to ensure amounts billed are adequately supported, such as with approved change requests, supporting subcontractor invoices, and expense receipts. In one instance, a change request that reduced one subcontractor cost and increased another was not appropriately applied in pay applications to the City.

The increase was applied, but the reduction was not. This resulted in an overcharge of approximately \$87,500. The details were forwarded to the department for potential reimbursement from the CMAR, along with several smaller instances where contingency funds were approved and applied with no associated cost increases to the subcontracts.

Auditors also observed that the CMAR had negotiated a cost reduction with another subcontractor related to quality issues in construction. The reduction of approximately \$283,000 had not been applied to Aviation's costs. Auditors also forwarded this information to the department for follow-up. The audit also recommends that the department formalize the process for approving changes and establish record retention standards for contract administration documents.

In response to a question from Vice Mayor Whitehead, Ms. Walker confirmed that typically, Capital Project Management (CPM) would be managing the construction contract. In this particular case, the Airport managed the project and hired a consultant. The audit recommendations relate specifically to the Aviation Department when it is managing its own projects. Previous construction contract audits of CPM have identified similar findings and issues in the past.

In response to a question from Vice Mayor Whitehead, Gary Mascaro, Aviation Director, concurred that the department will review the identified overpayments and work with the Attorney's Office, the auditors and the contractor on a resolution.

Councilmember Korte referenced page 16 of the audit report under Number 2, additional controls for monitoring and verifying construction costs should be adopted. She was surprised to find that the department would hire a consultant to perform administration of the project and not require them to monitor construction costs. She asked whether this is common. Chair Littlefield said that based on her experience with a construction company, it is not. Mr. Mascaro stated that the contract did require the consultant to review reasonableness of costs, which they did. However, there were areas where they probably could have done a better job and, based on the audit results, this needs to be a little more tightened.

Ms. Cluff clarified that the consultant did review costs, however the recommendation is for processes to be established up front, so that the reviews are more consistent. Good observations were made and some errors, but not all, were identified and fixed. Mr. Mascaro stated that the Aviation Department concurs with the recommendation. Councilmember Korte thanked Mr. Mascaro, noting this is a really important finding of this audit.

Chair Littlefield agreed that processes need to be established before a project starts, so that everyone knows where and what is needed in order to verify costs and expenses in comparison to estimates. These processes, policies and procedures should be set up ahead of time, especially considering that additional projects are to be completed in the near future. Chair Littlefield added that she knows the Auditor's department has agreed to assist with this and she recommends that it be done. Ms. Walker clarified that her office is happy to answer questions from Aviation and to review and provide feedback, but auditors have to be careful not to set up the procedures because then they could not audit them. Mr. Mascaro stated that Aviation appreciates the support. The Aviation contract administrator is already working on the procedures and has been talking with Ms. Cluff about this.

Chair Littlefield said that no plan was submitted per state law for the selection of the subcontractors. This plan needs to be available to be in compliance. Chair Littlefield also noted that she loves the building; the end product was great.

VICE MAYOR WHITEHEAD MOVED TO ACCEPT AUDIT NO. 2004. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

5. Discussion and Possible Direction to Staff Regarding Report No. 2011, Annual FY 2019/20 Follow Up on Status of Audit Recommendations

Ms. Walker provided a brief review of the status of audit recommendations. As summarized, the percentages of audit recommendations that are implemented, in progress or partly implemented is about the same as it was this time last year. But the 90 percent progress on audit recommendations is 13 percentage points higher than it was in 2009 when the follow-up program started. Only two audits are more than two years old that have not been implemented and closed out: Intelligent Transportation Systems and the Scottsdale Arts Contract audits. However, progress is being made on both.

Ms. Walker noted that the Committee had previously requested updates on two audits, Infrastructure Condition Assessment and Warehouse Operations, and Ms. Cluff will provide those updates.

Ms. Cluff stated that for the Infrastructure Condition Assessment follow-up, the recommendations are mostly still in progress, possibly because the Street Operations Director position remains vacant. During the last follow-up in May, the department reported that they had updated policies for reviewing the ADOT recommendations. The Auditor's Office has requested these updated policies and will review them once received. The department is still working on comparing ADOT's NBIS inventory to the City's bridge information. While they have not yet completed the review for non-NBIS bridges that need to be monitored, they have added the Soleri Bridge to the schedule for structural reviews.

For parking garage repair and maintenance, one garage is in the process of repairs and another has been deferred to a future year, due to current conditions as well as the budget. For drainage inspections and maintenance, the department reported that they were not able to add another position to complete the inspections, however, they have asked the Parks Department to assist with maintenance of these assets. Auditors continue to follow up on how the department plans to monitor the progress of inspections. The streetlights inventory is still in progress; however, the department has stated it does not currently have the resources to complete the sidewalk inventory or parking lot assessments. Instead, the department will focus on addressing known repair issues at this time.

The first follow-up on Warehouse Operations has just been completed and most recommendations are still pending. Purchasing is looking into software and hardware solutions to address recommendations related to the Store's operation, such as using bar coding and scanners. This will also allow printing out receipts for transactions. Full inventory counts are now being done on a quarterly basis, but procedures have not been revised. Safes which hold jewelry for auction have been updated to be dual custody. They

are looking into using a third party auctioneer to handle technology surplus that will go up for auction. The auctioneer would also handle secure destruction, if needed. They are now recording the transfers of fleet vehicles given to them for surplus auction, however, they have not yet addressed the issue of open vehicle titles. The department is working on developing a process for documenting tax exempt certificates from auction buyers and are currently reviewing the refund policy. They have established a cross-departmental committee to look at warehousing responsibilities.

Ms. Walker stated that overall, both departments are making good progress on addressing audit recommendations. Chair Littlefield noted that the two-person safe requirement is also for the protection of those who enter the safe. Vice Mayor Whitehead inquired about staffing for maintenance. Ms. Cluff said that in terms of drainage inspections, the goal was to have all drainage assets inspected within five years. Since the department stated it was unable to increase staffing, auditors recommended prioritizing work and reevaluating the performance goals, if needed. A status on the bridge maintenance is not yet available. Chair Littlefield noted that the State provided a list of projects that needed to be done. Ms. Cluff confirmed that every year, the State Department of Transportation gives Scottsdale a list of bridges and culverts inspected and any issues that need to be addressed. In the past, there was no process to ensure these recommendations were being addressed.

VICE MAYOR WHITEHEAD MOVED TO ACCEPT REPORT NO. 2011. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

6. Discussion and Possible Direction to Staff Regarding Report No. 2012, Integrity Line

Ms. Walker stated she has summarized in this report how many incoming contacts have been received. The numbers remain relatively low in comparison to other cities. There have been six contacts this year. There were six total cleared, including three from last year, and three items from this year remain. There were no separate stand-alone investigative reports issued. The most significant concerns were two related items regarding one employee in terms of inaccurate timekeeping and managing a contract with a spouse. Ms. Walker's investigative results were provided to the City Manager's Office, which was subsequently handled by HR. The employee and her supervisor are no longer with the City. Other items received on the Integrity Line did not rise to this level and most were closed as being not substantiated. One closed item was a concern related to a private business. There were no questions from Audit Committee members.

7. Informational Report Regarding 1st Quarter CY 2020 Taxpayer Problem Resolution Officer Report

Ms. Walker stated that the TPRO report is just an informational report. Audit Committee members had no questions.

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

Ms. Walker noted that the Plan was greatly impacted due to the pandemic, so four audits have not been completed with three of these related to Public Safety. The fourth involves fleet operations, and a substantial amount of the audit work has been completed. For the police technology audit, the contractor had some issues due to the pandemic, which also slowed the audit. Auditors are currently reviewing the draft results for that audit. The fleet operations and policy technology audits should be ready for an August meeting. There were no questions from Committee members.

9. Discussion and Possible Direction to Staff Regarding Proposed FY 2020/21 Audit Plan

Ms. Walker stated that under normal conditions, the Audit Committee would be given a couple of opportunities to look at potential topics before putting together the proposed plan. However, with four audits rolling forward to next year and the Committee's previous agreement that the two contingency audits would roll forward, there is only capacity to add one new audit to the list.

The previous discussion at the March meeting noted the recurring reports, which also include reviews of the City Auditor's Office and the City Court that occur once every three years. For additional audits, the Code Enforcement Operations and Housing Rehab and Repair Programs audits on the current year contingency list were considered to be higher priority since they have not been reviewed in more than ten years. Item 16, National Transit Data Financial Data Review, is now required. It was last completed in May 2019. Just recently, the Transit Department reported that the federal agency has reviewed the City's submitted information for 2018/19 and because of the change in data from 2017/18 (the year auditors reviewed), another financial data review is being required. To meet the timing requirement, it will have to start by late July or early August to be ready for the September Audit Committee meeting for submission in October. In addition, three contingency audits have been added, based on Audit Committee discussions at the previous meeting and on concerns expressed by certain departments. Items 17 and 18 are included for these reasons. Purchasing Card Controls is included in the contingency plan as the City is going through the process of changing the program from one provider to another.

VICE MAYOR WHITEHEAD MOVED TO RECOMMEND TO THE CITY COUNCIL THE FY 2020/21 AUDIT PLAN. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, VICE MAYOR WHITEHEAD AND COUNCILMEMBER KORTE VOTING IN THE AFFIRMATIVE.

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

Ms. Walker stated that based on the rising COVID-19 infection numbers, the August meeting is expected to be electronic rather than in person. Chair Littlefield suggested the use of Zoom, which allows for ease of public involvement.

Adjournment

With no further business to discuss, the meeting adjourned at 4:58 p.m.

SUBMITTED BY:

eScribers, LLC