

**APPROVED MINUTES
APPROVED AS AMENDED ON 01/28/2019**



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING**

Tuesday, November 13, 2018

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

PRESENT: Suzanne Klapp, Chair
Virginia Korte, Councilmember
Kathy Littlefield, Councilwoman

STAFF: Sharron Walker, City Auditor
Paul Christiansen, Senior Auditor
Cathleen Davis, Senior Auditor
Brad Hubert, Senior Auditor
Janis Bladine, City Attorney's Office
Tim Conner, Planning & Development
Joyce Gilbride, City Treasurer's Office
Tom Shannon, Fire Department
Phillip Verver, Budget Office
John Whitney, Fire Department
Mark Zimmerman, Fire Department

GUESTS: Tammy Bosse, EQAB Member
Alisa McMahon, EQAB Chair
Sandy Schenkat
Jill Shaw, Heinfeld Meech

CALL TO ORDER

Chair Klapp called the meeting to order at 3:00 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

PUBLIC COMMENT

Sandy Schenk requested an additional audit on Experience Scottsdale, commenting she has already brought the issue forward several times. She noted that the new contract is for \$100 million, and there is excessive funding; Experience Scottsdale pays excessive wages to its executive director and vice presidents; and there is continued waste and exaggeration.

1. Approval of Minutes, Regular Meeting, September 24, 2018

COUNCILWOMAN LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE SEPTEMBER 24, 2018 REGULAR MEETING AS PRESENTED. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR KLAPP, COUNCILMEMBER KORTE, AND COUNCILWOMAN LITTLEFIELD VOTING IN THE AFFIRMATIVE.

2. Discussion and Possible Direction to Staff Regarding Audit No. 1901 FY 2017/18 External Financial Audit

Jill Shaw, Heinfeld Meech, stated that the audit process starts at the beginning of the summer each year. The scope includes a financial statement audit of the City as well as all of the component units, including SPA and MPC. The financial statement audit looks at material balances in the financial statements and examines internal controls and compliance-related requirements. A single audit is required because the City spends more than \$750,000 in federal funds. As a result of audit standards, auditors are required to rotate federal programs looked at, which usually include some of the larger ones. This year, they audited the Airport Improvement Program and the Highway Planning and Construction Programs. Another part of the audit requires that auditors look specifically at highway user expenditures to ensure they are being spent on street-related projects.

Findings requiring City Council's attention would be reported in the single audit reporting package. There were a few noted items. Some relate to internal controls over the purchase requisition process as well as cash receipts. A deficiency was noted in the Airport Program regarding procurement, the application of conflict of interest policies and how they are considered during the procurement process.

Findings that do not necessarily require City Council attention are provided via a management letter. This year, the letter contained a recommendation for management to take a look at the procurement processes to strengthen controls.

The audit standards require communications with bodies of governance. As such, part of the audit includes issuance of a communication to governance, which has been provided. Some of the things the auditor is required to highlight include changes to accounting policies. This year, one new accounting standard was implemented, which had to do with other post-employment benefits, which increased one of the liabilities in the financial statements. The governance communication also discusses estimates, as estimates are included in the financial statements. However, the City often uses actuaries to help develop the estimates. If there were difficulties with the audit, disagreements with

management regarding application of accounting principles, audit adjustments or misstatements, these would also be required to be reported in the governance letter. There were no such issues or adjustments. The representation letter signed by management is also attached to this communication.

Chair Klapp noted that for previous audits, the Committee approved a motion to direct the Audit Department to report to City Council the results of the financial audit.

COUNCILMEMBER KORTE MOVED TO DIRECT THE CITY AUDITOR TO PRESENT THE CITY'S FY 2017/18 EXTERNAL FINANCIAL AUDIT REPORTS TO THE CITY COUNCIL FOR ACCEPTANCE. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR KLAPP, COUNCILMEMBER KORTE, AND COUNCILWOMAN LITTLEFIELD VOTING IN THE AFFIRMATIVE.

3. Discussion and Possible Direction to Staff Regarding Environmental Quality Advisory Board Sunset Review

Cathleen Davis, Senior Auditor, stated that the Board's primary purpose is to advise the City Council on issues relating to environmental quality and on prioritization of future environmental activities and programs. The Audit Committee is to evaluate whether the Board is serving its intended purpose, whether the purpose should be maintained or modified and whether the purpose has been served or is no longer required. The Audit Committee is to recommend to the City Council whether to continue or terminate the Board.

Alisa McMahon, EQAB Chair, stated that EQAB understands that it is not within the Audit Committee's purview to change ordinances and that process has been initiated through their staff liaison, Tim Conner. Staff has indicated that they will be guided in the process by the Audit Committee's response. She requests that it be clear that any lack of action on the proposal is not a reflection of any opinion, support, or lack of support for the revision process. Ms. McMahon believes a revision would be constructive. She cited from Audit Committee minutes for the Library Board's sunset review that the Library Board chair said "Support for outreach efforts, advocacy, encourage development of a robust strategic plan with priorities and outcome-oriented metrics the Board can periodically review." And supporting staff. These are the same types of things the EQAB has proposed for its purpose, powers and duties so she hopes they will be given a fair hearing.

Chair Klapp expressed appreciation for the time spent in putting the proposal together and in attending the meeting. She further noted that the Audit Committee's primary role is to determine whether the EQAB should be sunsetted or continued. Changes proposed to ordinances must follow the administrative process, all the way through the City Manager's Office and probably be presented to the entire City Council. But that does not mean we take your comments lightly.

Councilmember Korte expressed appreciation for the time EQAB has put into its proposal. She also stated that she would like to request an agenda item to City Council to give direction to staff to review the purpose, powers and duties and EQAB and direct the City Manager and the City Attorney's Office to work with staff of the EQAB to look at this more closely. She added that she would bring this forward with the City Clerk.

Councilwoman Littlefield agreed with the plan and offered to coauthor the request. It is notable that the ordinance has not been revised since 1993 and the issues now are vastly different than they were at that time.

Chair Klapp explained that she had passed EQAB's information on to the City Manager so that he's aware of this and she understands that they were going to work on something related anyway, so this is not going to fall into a hole. The City Manager can work with the proper staff and departments so it's being discussed at that level. She again thanked the EQAB representatives for taking the time to attend the meeting and for their interest in EQAB in general.

COUNCILMEMBER KORTE MOVED TO RECOMMEND TO CITY COUNCIL THE CONTINUANCE OF THE ENVIRONMENTAL QUALITY ADVISORY BOARD. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR KLAPP, COUNCILMEMBER KORTE, AND COUNCILWOMAN LITTLEFIELD VOTING IN THE AFFIRMATIVE.

Chair Klapp commented that it's unanimous to continue EQAB and move forward with discussions on any changes that might take effect as to how EQAB operates.

4. Discussion and Possible Direction to Staff Regarding Audit No. 1908, Fire Marshal Inspections

Brad Hubert, Senior Auditor, stated that that the audit was originally titled Fire Marshal inspections. However, once staff began the audit, they realized that the program is now within the Fire and Life Safety Division of the Scottsdale Fire Department. The Division inspects and reviews building plans, construction, existing buildings and other sites to ensure compliance with the City Fire Code. In the two-year period looked at, the Division had performed more than 20,000 inspections. The audit found that the department is not achieving its goal of completing annual target inspections at higher risk sites in the City and it is not performing safety surveys every three years at other lower risk or non-target sites. Of the 38 target sample sites looked at, only six had received annual target inspections. Only three of ten selected non-target sites had received a safety inspection during the past three years.

There were also issues with the inspection data. The department uses a system called the Fire Prevent System to track commercial buildings and other sites, however it contains unreliable and outdated information. Of the 87,000 listings in the system, approximately 10,000 were estimated to be duplicates and 1,700 were single family homes, which are structures the department would not be inspecting. The department has not performed a risk assessment of target properties since 2009. Many locations that were target sites in 2009 are either under new ownership or different usage. Some of the buildings actually no longer exist. Newer properties, such as SkySong and Scottsdale Quarter, were not included in the assessment. Auditors found that three of the 50 fire-related inspections in the Planning Division records were not also in the Fire Prevention System. This is likely because inspectors must manually enter the inspection results into both systems. The Fire Department does not have a process to ensure the inspections are being entered into its system.

Reliability issues were identified with some of the system reports. Even though the system said 23 tested inspections were not completed, they actually had been done. The issue related to that data was not being analyzed correctly for that specific report. While the audit was in process, the Fire Department realized that another report they use, the uncompleted target queue, was not pulling all the proper categories of inspections. In both cases, the reports did not work well for managing the program.

The City requires nonresidential properties to have fire alarms, sprinklers and other fire suppression items checked annually by third party contractors. The contractors are required to submit the reports to the Fire Department. At the time, the Fire Department was only keeping the inspections that had a deficiency, while disposing of the other reports. Either way, the reports can be useful as part of the Department's risk assessment process. The Fire Department is working to contract out the reporting process via a company that will assist them to receive all the reports electronically.

A third area included administrative issues. There was some unnecessary access to the Fire Prevention System. Some refunds did not include all required documentation. The Department is planning to enter into a contract to collect the inspection reports. This imposes a fee and the Department did not realize it needed to proceed through the Council rate approval process. They are delaying their plans in order to go through the approval requirement.

Auditor recommendations included: evaluating inspector scheduling and inspection goals to ensure that they are realistic and effective; establishing policies and procedures to ensure that the inspection database is accurate and complete and that the reports and data it produces are useful in managing the program; and improving program administration as it relates to system access and documentation of refunds

In general, the Department agreed with the recommendations. They have already begun to make progress on the improvements. Chief Shannon thanked the auditors for the collaborative process. Ms. Walker added that during the course of the audit, the Department was already working on fixing reports and processes.

Councilwoman Littlefield stated that in reading the report, she has the impression that the Department is undergoing a reorganization to some extent. Chief Shannon stated that they have recently reorganized. Mark Zimmerman has become the Fire Marshal and John Whitney is the Assistant Fire Marshal. The restructuring has been helpful in terms of a succession plan as well as providing fresh eyes on the Department. Councilwoman Littlefield commented that she agrees with the findings of the audit and would like to recommend that when the steps have been completed, they send a notice to the Audit Department to let them know how it is going.

5. Discussion and Possible Direction to Staff Regarding 1st Quarter FY 2018/19 Follow Up on Status of Audit Recommendations

Ms. Walker stated that, as summarized in the memo, 92 percent are in the implemented, partly implemented or in-process phases. At the same quarter last year, these categories totaled approximately 94 percent. Audit staff has been asked to work with the departments to ensure understanding the recommendations and assist in bringing issues to resolution.

Councilwoman Littlefield asked whether during these follow ups, auditors are finding any particular areas that repetitively have problems to complete the updates and whether the Audit Committee can help to solve some of those issues. Ms. Walker acknowledged that there are a couple of areas making more sluggish progress. She will be updating the City Manager about these. Also, audit staff has been asking questions and engaging with department staff to help them better understand the recommendations. Councilwoman Littlefield commented that is a good process, trying to explain the reasons why something might be moved up in priority.

6. Informational Report Regarding 3rd Quarter CY 2018 Taxpayer Problem Resolution Officer Report

Ms. Walker stated that this is an informational item only, unless there are questions. No questions were posed.

7. City Auditor Updates, Including Status of FY 2018/19 Audit Plan

Ms. Walker stated that they are slightly off target, being behind by one audit compared to the projection. She currently estimates they will be back on target by March.

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

Ms. Walker stated that the next meeting will be on January 28th and reviewed the draft agenda.

Public Comment

Comments provided at the beginning of the meeting.

Adjournment

With no further business to discuss, the meeting adjourned at 3:40 p.m.

SUBMITTED BY:

eScribers, LLC