

APPROVED MINUTES APPROVED ON 05/20/2019



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING**

Monday, March 18, 2019

**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
Cathleen Davis, Senior Auditor
Shelby Trimaloff, Executive Asst to City Auditor
Brian Biesemeyer, Scottsdale Water Director
Gina Kirklin, Enterprise and Finance Director
Bill Murphy, Community Services Director

GUESTS: Joe Williams, Raftelis Financial Consultants
Sandy Schenkat

CALL TO ORDER

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

PUBLIC COMMENT

There were no comments.

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, January 28, 2019

COUNCILMEMBER KORTE MOVED TO APPROVE THE MINUTES OF THE JANUARY 28, 2019 REGULAR MEETING AS PRESENTED. COUNCILWOMAN WHITEHEAD 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. 1903, Benefits Administration, Biennial Certified Audit of Land Use Assumptions, Infrastructure Improvements Plan and Development Impact Fees (July 1, 2016 – June 30, 2018)

Kyla Anderson, Senior Auditor, stated that in 2011, state legislation changed in relation to development impact fees. Since that time, Scottsdale has followed the requirements when adopting fees for water and wastewater utilities. The legislation required that the City either appoint an advisory committee or provide for biennial certified audits. The Scottsdale Water department opted for the audit. Further, the audit must be conducted by a qualified professional not employed by the City of Scottsdale and who did not prepare the infrastructure improvement plan. The City Auditor's Office selected Raftelis Financial Consultants to conduct the audit. The City is required to post the report on its website and conduct a public hearing within 60 days of completion. The report has been posted since March 8th.

Joe Williams, Raftelis, reviewed the slides provided in the agenda materials to summarize the audit. He stated the audit covered fees adopted in 2014 and plans that were put in place starting in 2013, including the following:

- Land Use Assumptions (LUA)
- Infrastructure Improvements Plan (IIP)
- Development Impact Fee (DIF) revenues and expenditures over the period of July 2016 through June 2018

The fees are only assessed for water and wastewater, and the City publishes each year a report on the collection and use of these development fees.

The LUA is a 10-year forecast of the expected kinds of development and how it is going to impact the need for water and wastewater services. So Raftelis looked at how the 2-year period compared to the forecast. And they reviewed whether collected fees were spent appropriately, as planned in the IIP.

The LUA audit showed actual growth a little lower for both water and wastewater than planned. This is not an area of immediate concern because over a 10-year forecast, growth is not going to happen in a linear fashion in each 2-year period. But this is something to keep an eye on going forward as you update plans in the future. The revenue audit showed development fees applied correctly, and expenditures were all in compliance with the IIP.

Chair Littlefield asked whether the growth numbers are forecasted to rise over the next 8 years. Brian Biesemeyer, Scottsdale Water, stated that the difficulty is in forecasting growth. However, the department does reevaluate every four years and that gives the ability to adjust the plans. The program is structured to provide refunds if they overbilled and did not get the growth estimated in the LUA. So the department is very motivated to get it correct.

Councilwoman Whitehead referred to the chart showing LUA growth variances and asked if that means the department charged as if that many units were being built. Mr. Biesemeyer explained that actual growth for the 2-year period did not occur as a 2-year proportion of the 10-year forecast, but growth has accelerated since that time. And the plan does get reassessed every 4 years based on actual growth. Development Services actually puts the LUA together for Water based on what they are seeing in growth.

Mr. Williams added that the City is charging each home for the meter that is installed, so this is not being charged to others.

COUNCILMEMBER KORTE MOVED TO ACCEPT AUDIT NO. 1903 AND PROCEED WITH THE REQUIRED PUBLIC HEARING. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

3. Discussion and Possible Direction to Staff Regarding Audit No. 1906, Cash Handling Controls and Accountability

Cathleen Davis, Senior Auditor, stated that the audit was performed to review cash handling processes and controls for effectiveness and compliance with Administrative Regulation 268 *Cash Handling* at selected locations. During FY 2017/18, staff at 41 locations throughout the City collected approximately \$330 million for various fines, fees, services and products, representing 46% of the \$714 million in revenues received by the City for the fiscal year. The remaining monies were collected by third-parties, such as the state Department of Revenue, and subsequently wired to the City's bank account. Cash handling audits were conducted at 12 locations. The audit found that use of a third-party payment processing site has not been subject to control procedures. While PayPal accounts were set up for certain City programs to accept online payments, this payment method has not been subjected to the same internal control requirements as other payment types.

Also, while the audited locations were generally operating in compliance with AR 268 and cash handling controls, improving controls at some locations could help prevent errors and irregularities or make their detection easier.

Ms. Davis stated the departments agreed with the audit recommendations and plan to implement changes by June 2019.

Councilmember Korte noted the results are much improved. Bill Murphy, Community Services Director, commented they had emphasized training. Ms. Walker noted Accounting's computer-based training has really made a difference and cash handling has

generally improved, so auditors were able to focus on more problematic areas for this audit, like the payment processing accounts.

Chair Littlefield noted training is not only for protection of the City, but also for the staff to know the right way to do the cash handling. It looks like supervisors need to review and sign off as they are supposed to do. She also commented these audit results are much better. Mr. Murphy commented that as new supervisors come into the positions, they also need to be trained and they are getting that more.

Chair Littlefield referenced the payment accounts, noting that it would seem better to have one account controlled in the Accounting office. Ms. Walker responded that when audit staff met with the City Treasurer and Accounting Director to discuss the draft, they indicated they are working on an online payment solution for another purpose and that may be expanded to replace the individual payment processing accounts.

Councilmember Korte asked if there are alternatives to PayPal, commenting that she knows there are. Ms. Walker agreed there are others and noted that these small accounts were set up for what was perceived as pressing needs. But the Treasurer's office is now reviewing alternatives.

Councilwoman Whitehead asked what the alternatives are. Ms. Walker responded that the conversation was brief, so she does not know the details. City technology staff is developing an application and for these, the payment is usually processed by a company where the money would be deposited to the City account rather than sitting in an account and having to be transferred.

COUNCILWOMAN WHITEHEAD MOVED TO ACCEPT AUDIT NO. 1906. 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 2017/18 External Financial Audit related items

- Annual Expenditure Limitation Report
- Financial Data Schedule Report and REAC (Housing & Urban Development requirements)

Ms. Walker stated that these items are finished after the annual financial audit is completed, in January or February. Previously, the Committee requested an update when the final items are complete. This is provided as informational item.

5. Discussion of Preliminary FY 2019/20 Audit Plan/Topics

Ms. Walker reviewed recurring/annual audits:

- FY 2018/19 External Financial Audit (contracted)
- Follow-up on status of audit recommendations

- Integrity Line
- E-Verify
- Information Technology (contracted)
- Construction contract

The Revenue Recovery audit will not be complete by June 30, 2019 and will carry forward to the 2019/20 plan. There will be capacity to complete six to eight additional audits. On the list as other projects are sunset reviews, taxpayer problem resolution officer reports, audit risk assessment model maintenance and special requests. Ms. Walker reviewed the preliminary potential audit topics list and explained the comparative risk ratings presented. Ms. Walker will bring the list to the next Committee meeting for additional feedback.

Councilwoman Whitehead asked whether an audit of WestWorld would include checking what was agreed to or also look at whether other facilities' fees are higher or lower. Ms. Walker explained that it would depend on what audit objective is set, giving examples of a past WestWorld audit that looked at financial performance and efficiency, including rate analysis, and another that reviewed contract compliance. Chair Littlefield, noting the recent consulting report with business plan changes, suggested a WestWorld audit could wait a year or two for planned changes to happen. Ms. Walker agreed, explaining it is an example of a comparatively high rating that for other reasons would not need to be on the proposed audit plan this year.

Chair Littlefield suggested Police Investigative Services as it has a '4' rating. Councilmember Korte indicated she would like to see the City Auditor's proposed plan at the next meeting for further discussion. Chair Littlefield agreed, commenting that some of the areas that have not been audited in more than 5 years might be a good place to look. Specifically, she noted Aviation, Economic Development, and Neighborhood Planning as examples, and that the plan would not have to include all long-term areas but could pick up some of them. Ms. Walker stated for the next meeting she can put together a proposed plan with alternatives to consider. Audit Committee members concurred.

6. City Auditor updates, including status of FY 2018/19 Audit Plan

Ms. Walker stated that Item 24, NTD Financial Data Review, on the status report is related to the Transportation Department's Transit Group receiving federal monies. One of the requirements for that money is to have a review of financial data every ten years. The last review was in 1989. This is an agreed-upon procedure, which is a list of items specifically to be compared to the underlying records, so it is pretty straightforward. City Code allows the City Auditor to add an audit to the plan, and this needs to be completed for the City to receive the transit funding. Councilmember Korte commented on the audit being delayed on this year's plan. Ms. Walker explained that Revenue Recovery was already being delayed by the auditing standards update project that is required. This review likely will not delay any additional audits, but she will know more by the next meeting.

Committee members agreed with the NTD Financial Data Review being added to FY 2018/19 Audit Plan.

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

Ms. Walker noted that the Fleet Parts audit that was not ready for this meeting would be ready for either April or May. But it would be the only report ready for April. In the past, the Audit Committee has indicated a preference for a longer meeting rather than meeting for one audit. So she recommended the next meeting should be in May.

Audit Committee members agreed with the next meeting date of May 20, 2019.

Ms. Walker reviewed items on the draft agenda for the next meeting.

Public Comment

There were no comments.

Adjournment

With no further business to discuss, the meeting adjourned at 4:53 p.m.

SUBMITTED BY:

eScribers, LLC