

APPROVED MINUTES APPROVED ON 09/16/2019



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING**

Thursday, June 27, 2019

**City Attorney's Conference Room
3939 North Drinkwater Blvd
Scottsdale, AZ 85251**

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

STAFF: Sharron Walker, City Auditor
Paul Christiansen, Senior Auditor
Lai Cluff, Senior Auditor
Cathleen Davis, Senior Auditor
Shelby Trimaloff, Executive Assistant to City Auditor
Donna Brown, Human Resources Director
Bill Murphy, Assistant City Manager
Robert Schoepe, Purchasing Director
Rachel Smetana, Mayor's Chief of Staff
Philip Verver, Senior Budget Analyst
Dan Worth, Public Works Director

GUESTS: Sandy Schenkat

CALL TO ORDER

The meeting was called to order at 1:00 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

PUBLIC COMMENT

Sandra Schenkat expressed concerns regarding Experience Scottsdale salaries and oversight of the City's bed tax funding. She requested that another audit be performed.

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, May 20, 2019

Chair Littlefield called for comments/changes to the minutes.

COUNCILWOMAN WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE MAY 20, 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 Audit No. 1905, Infrastructure Condition Assessment

Lai Cluff, Senior Auditor, stated that the audit was conducted to evaluate the management processes and related contracts for condition assessments of the City's infrastructure. It focused on certain infrastructure assets that have not previously been audited, including bridges, parking garages, parking lots, stormwater drainage assets, streetlights and sidewalks. These assets are within the responsibility of Public Works and its departments. In particular, the audit examined the bridge program and assessments of parking garages. As part of the National Bridge Inspection Standards, ADOT performs bridge inspections of approximately 230 city bridges and culverts. The inspection reports are sent to the Street Operations department for follow up of maintenance and repair recommendations. The audit found there were no processes in place to guide staff with the review and monitoring of the bridge inspection results.

Specifically, since 2014, ADOT inspection, repair and maintenance recommendations have not been addressed. There was no documentation of the recommended work being performed. Public Works does not have a program in place to identify, inspect and maintain bridges that are not required to be inspected by ADOT, including pedestrian bridges and those less than 20 feet in length. ADOT's bridge inventory for Scottsdale needs to be reviewed to ensure that recently constructed bridges have been recorded and non-city bridges are removed.

The Facilities Management department has contracted for the assessment of City garages. Five of the eight garages identified have been assessed since 2015. However, the recommended repairs and maintenance have not yet been addressed. The audit also found that the Street Operations department does not meet its goals for drainage asset inspections, and reports do not consistently identify visible repair needs that were noted on ADOT inspections on drainage-related bridge structures. Policies and procedures, prioritization of work and monitoring of the drainage inspection program are

recommended. Other assets, such as streetlights and sidewalks, have not yet received condition assessments and are still being inventoried. Parking lot assessments have been sporadically performed.

Councilwoman Whitehead commented on the thoroughness of the report. She asked how staff can be assisted in addressing all the issues. Dan Worth, Public Works, agreed with the report findings. There was a process in place regarding ADOT bridge inspections, however it lapsed with the leadership change a few years ago. It is notable that there is a very small number of structures identified as significantly in need of immediate attention. Staff is putting a process in place to bring the City Engineer and Capital Projects Management into the loop to evaluate inspections and determine what actions need to be taken. Processes will include creating work orders to take recommended action, establishing capital projects when needed, and monitoring.

Other assets are a matter of prioritization, including parking lots and streetlights. Prioritization is given to tracking and maintenance of city pavement assets. The department will request resources to allocate toward parking lots and alleys, which typically do not receive as much attention as other assets. In terms of stormwater assets, the inspection program is a regulatory requirement. The Clean Water Act requires inspection of all outfall structures, however there is not currently a dedicated person to complete this work. An equipment operator has been assigned to the task, with approximately one-half of all the inspections completed. Priorities include evidence of discharge, then infrastructure condition issues and finally whether the asset is performing properly. Some of this relates to resource requirements, including one FTE to keep up with inspections.

Councilmember Korte asked whether the timing of the recession from 2010 and reduction in staffing was a primary cause of the failures. Mr. Worth affirmed the relationship between staffing and the square footage of buildings that the facilities department must maintain. Some new inventory components require significant maintenance, yet staffing has not returned to pre-recession levels.

Councilwoman Littlefield expressed concerns regarding failure to review and act upon the reports provided by ADOT and the importance of prioritizing the issues identified in the audit and taking care of the assets the City has. She requested that the Committee receive a follow-up report at the earliest time and that a specific person from the department be charged with recording progress. She also would like to see Mr. Worth receive reports and updates on the progress and status of these efforts. Sharron Walker, City Auditor, noted that audit follow-ups are regularly performed and that she would bring this audit's follow-up results to the attention of the Committee.

Councilwoman Whitehead said that citizens often comment that costs to the City increase as development increases, taking away from the resources to maintain the City. Existing infrastructure should receive priority. It should be ensured that when new development occurs, the process also includes reviewing the need for additional operating resources. Mr. Worth added that future operating costs are evaluated during the CIP planning process but said it is not reviewed again once projects are approved into the CIP budget. Councilwoman Whitehead also suggested more communication with Public Works during the approval of new developments to provide Council with information about potential future operating costs to the City resulting from development proposals.

Councilwoman Littlefield said that Public Works should make sure asset information to ADOT is updated. Mr. Worth agreed that the department's biggest shortfall is making sure it has a good inventory of the assets ADOT does not inspect. Also, as the report comments, there are new assets that have not been reported to ADOT and these need to be updated.

Ms. Walker clarified that, based on information gathered during the audit, the water quality portion of the drainage inspections were completed by the Water Quality department. Mr. Worth said that Street Operations performs the regular inspections and will notify the Water department if any issues are identified. Ms. Cluff added that higher priority assets are also inspected every year by Water.

COUNCILMEMBER KORTE MOVED TO ACCEPT AUDIT NO. 1905. 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 Report No. 1914, FY 2018/19 Annual Follow Up on Status of Audit Recommendations, Including Requested Follow Up on Audit 1913, Benefits Administration

Ms. Walker stated that approximately 89 percent of recommendations are being addressed. At the same time last year, the figure was approximately 91 percent. When the follow up program was first instituted in 2009, the percentage of audit recommendations being addressed was only 77 percent, representing an improvement of 12 percentage points. The in-progress portion is slightly larger than this time last year. Three particular audits are contributing to this, Preventative Maintenance and Repair, Commercial Solid Waste Operations and Software Acquisition and Implementation.

During discussion of the Benefits Administration audit in January 2019, Committee members requested a follow-up report. Cathleen Davis, Senior Auditor, reported on the status of the three findings:

First, procurement practices for benefit-related agreements can be improved. Human Resources and Purchasing staff are currently working on an RFP for a new benefit-related agreement and are working to ensure that the procurement process follows all City requirements, including appropriate documentation. They are also working to ensure that the RFP includes specific language related to deliverables.

Second, protection of Personally Identifiable Information (PII) and Protected Health Information (PHI) is not fully addressed in some benefit-related agreements. Human Resources reported that the investment consultant stated it does not have access to PII and PHI data. In addition, Human Resources is reviewing other agreements to determine if a Business Associate Agreement is needed.

Third, contract administration of third-party benefits can be improved. The Contract Administrator developed a contract matrix, which includes benefit-related agreements. The Contract Administrator has also gathered supporting documentation in a more organized manner. Additionally, the Contract Administrator worked with the Accounting Department to develop a good process for invoicing with Cigna for the wellness account

and the network folder that provided staff with more access than needed for their day-to-day jobs was adjusted.

4. Discussion and Possible Direction to Staff Regarding Report No. 1915, FY 2018/19 Annual Integrity Line Report

Ms. Walker stated that the report summarizes the activity for this fiscal year. Eight hotline contacts were received, with two items, including one from last year, being more appropriately handled by other departments. Two matters were evaluated but could not be substantiated. Two others did not merit action. No separate investigation reports were issued this year, but three matters are still being investigated.

5. Discussion and Possible Direction to Staff Regarding Proposed FY 2019/20 Audit Plan

Ms. Walker stated the proposed Audit Plan includes items discussed at the previous meeting. She asked if the Audit Committee had any recommended modifications. No changes were proposed.

COUNCILMEMBER KORTE MOVED TO ACCEPT THE FY 2019/20 AUDIT PLAN AS PRESENTED. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

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

Ms. Walker reviewed the update report. Overall, 14 reports have been completed, which is consistent with the average. The department is currently working on the landfill recycling agreement cost review. It is anticipated that the review will be complete in August. The other two audits remaining from this year's plan should be completed in September.

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

Ms. Walker updated the Audit Committee that a meeting will not be needed in July. Also, since only one audit is expected to be completed in August, they will instead present three audits in September. Meeting in September will comply with the requirement for the Audit Committee to meet once a quarter. The next meeting date is September 16, 2019.

Adjournment

With no further business to discuss, the meeting adjourned at 1:42 p.m.

SUBMITTED BY:

eScribers, LLC