

APPROVED MINUTES APPROVED ON 11/12/19



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING**

Monday, September 16, 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
Paul Christiansen, Senior Auditor
Cathleen Davis, Senior Auditor
Brad Hubert, Senior Auditor
Shelby Trimaloff, Exec. Asst. to City Auditor
Greg Bestgen, Human Services
Jacqueline Denlinger, Business Services
Darcy Nichols, Business Services
Lorelei Oien, Human Resources
Rachel Smetana, Mayor's Office
Jim Thompson, City Manager
Phillip Verver, Budget Office
Dan Worth, Public Works

GUESTS: Patty Badenoch
Julie Gunnigle
Thomas Gunnigle
Sandy Schenkat
Wayne Schutsky, Scottsdale Progress
James Austin Woods

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 members of the public who wished to speak.

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, June 27, 2019

Chair Littlefield called for comments/changes to the minutes.

COUNCILWOMAN WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE JUNE 27, 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 Human Services Commission Sunset Review

Brad Hubert, Senior Auditor, stated that the Commission's purpose is to advise City Council on improving the City's existing human services and to address citizens' needs. The Commission coordinates the delivery of human services from private agencies, City services and other governmental agencies and provides opportunities for citizen involvement and participation. The Commission is also responsible for reviewing and making recommendations to City Council on related funding applications. The Commission's three most recent annual reports were provided, and Greg Bestgen, the Human Services Director, is available for any questions. The Audit Committee is to evaluate whether the commission is serving its intended purpose; whether the purpose should be maintained or modified and whether the purpose is no longer required. And the Audit Committee is to recommend to the City Council whether to continue or terminate the commission. In response to Chair Littlefield's invitation to add any comments, Mr. Bestgen thanked the Committee for all the work they do for the community and expressed appreciation for their direction and support.

COUNCILMEMBER KORTE MOVED TO RECOMMEND TO CITY COUNCIL TO CONTINUE THE HUMAN SERVICES COMMISSION. 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 Judicial Appointments Advisory Board Sunset Review

Mr. Hubert stated that the Judicial Appointments Advisory Board is responsible for making recommendations to the City Council regarding the appointment of new full-time City judges, performance evaluations of the incumbent full-time judges and providing advice to City Council about the retention of those judges. The Board's review and recommendation process is spelled out in the City Code, and City Council may accept or reject the Board's advice and recommendations. The two most recent annual reports were provided, and the 2018 report is still in draft format because the Board has not needed to meet since January 2018, which was for the most recent presiding and associate judge reappointments. Lorelei Oien, Human Resources Management Analyst, is available for any questions. The action requested of the Audit Committee is to make a recommendation to the City Council as to whether to continue or terminate the board.

Sandy Schenkat requested to speak, stating that she was a member of the Board for five years. Ms. Schenkat commented there are no bylaws listed for the Judicial Appointments Advisory Board (JAAB) and it is only addressed through City Ordinance Division 13, Section 2-346 to 2-354. Under Section 347, the purpose of JAAB is to evaluate the performance of incumbent full-time City judges and to advise City Council about retaining them in office. Under Section 2-352, Item B24, the Board may use, as a guide, a survey, questionnaire, data forms and reports formulated under Rule 6 of the Arizona Supreme Court's rules of procedure for judicial performance review in Arizona. She stated Council does not have the opportunity to read the evaluations collected from City attorneys and defense attorneys regarding the performance of judges. Ms. Schenkat expressed concerns regarding the low scores garnered by Judge Hendrix. Ms. Schenkat stated that when asked why her scores were even worse in 2018 than in 2013, the Judge's response was that defense lawyers do not like her. Ms. Schenkat commented the work of the JAAB is often ignored, with the City Council making a simple yes or no decision without having all the relevant information, and she suggested that JAAB bylaws should be drafted to address this issue and provide greater oversight. Additionally, she stated the City should not be making \$10 million in profits annually in operation of its court system.

Councilwoman Whitehead suggested the possibility of having this topic on a future meeting agenda. Chair Littlefield stated that this would not be under the purview of today's discussion. Sharron Walker, City Auditor added that the Audit Committee would not be overseeing a process such as this; the department liaison and City Attorney's Office would be the appropriate parties to do so.

Chair Littlefield stated that the Committee also received a written comment from Mark Stewart regarding this agenda item.

Ms. Walker noted that the Council report provided at the time the judge was considered for reappointment did include JAAB's draft minutes, which were written in great detail. The Council report also included a link to the recordings of the interviews, discussion and decisions by JAAB.

COUNCILMEMBER KORTE MOVED TO RECOMMEND TO CITY COUNCIL TO CONTINUE THE JUDICIAL APPOINTMENTS ADVISORY BOARD. COUNCILWOMAN WHITEHEAD 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 Audit No. 1917, Landfill Recycling Cost Review

Chair Littlefield noted for the record a commendation of Mr. Worth for taking the initiative to request the audit.

Kyla Anderson, Senior Auditor, stated that the audit was conducted to validate financial information related to the current recycling contract with Salt River Landfill. A subcontractor owns the recycling plant at the landfill. The subcontractor was requesting adjustments to the contract terms, including instituting a tipping fee, due to reported increased costs to reduce contamination to meet new international standards. Auditors estimated the cost of the subcontractor's proposed contract modifications using activity during the 12-month audit period. The City would have been billed an additional \$2.4 million for tipping fees while generating \$850,000 in revenue for a net cost of \$1.7 million for recycling services. The subcontractor supplied a recycling facility financial analysis to support its rate increase request. In auditing the analysis and provided accounting data, the auditors found that the analysis included unsupported and questionable costs. The subcontractor's financial analysis did not tie to its underlying general ledger data because a corporate markup was added. This markup was in addition to management fees already included in the analysis. Auditors identified more than \$400,000 in questioned expenses, including accelerated depreciation and out-of-period expenses. The subcontractor failed to provide supporting documentation for 14 of 33 selected expenses, including all labor expenses (60 percent of total costs).

Auditors also found that the subcontractor contributes a higher percentage of rejected recyclables, which increases processing costs. During the audit period, the subcontractor transferred approximately 16,000 tons of rejected materials to the landfill. Based on classification sort percentages, both Scottsdale and Mesa have about 9 percent contamination in recycling loads. Report Table 5 shows estimated rejected amounts per user. Scottsdale and Mesa's low contamination rates appear attributable to the public education programs and monitoring. The subcontractor does not have a similar program. Ms. Anderson noted that Dan Worth is also available to answer any questions.

Chair Littlefield commented that the claims the subcontractor made do not seem to be grounded in fact. The IRS has very strict rules in terms of depreciation of building timelines. The subcontractor was also unable to defend or prove its payroll and was unable to prove its assertions that the City's contamination percentages were higher than ever before. She agrees with Mr. Worth's contention that the increase is unwarranted in terms of renewing the subcontract. Chair Littlefield also noted that it was very wise of Mr. Worth to request the audit.

Dan Worth, Public Works, commented that the audit staff did an excellent job. He has already had his first meeting with the Salt River Pima Landfill Corporation, the entity the City contracts with, and shared the three biggest findings: unverifiable payroll, invalid depreciation, discrepancies in the quality of recyclables delivered by Scottsdale versus those from the vendor's own collection services. All of these points mitigated against the kind of increase they were looking for, and Salt River Landfill Corporation is fully on board

with us. Mr. Worth indicated he is going forward with negotiations and, instead of accepting their proposed \$100 tipping fee, he would be open to adjusting some of the values in the current formula, fully expecting that the City is going to pay more. One of the values that could be adjusted would be operating cost, but Mr. Worth is not going to talk about that until the vendor can prove the actual operating costs.

COUNCILWOMAN WHITEHEAD MOVED TO ACCEPT AUDIT NO. 1917. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

5. Discussion and Possible Direction to Staff Regarding Audit No. 1911, Revenue Recovery

Cathleen Davis, Senior Auditor, stated that the audit was performed to assess the effectiveness of Business Services' revenue recovery services. The Revenue Recovery section is responsible for collecting delinquent receivables owed to the City. These include utility accounts; business, liquor and special license fees; false alarm charges; and accounts referred by other City departments. The audit found that Revenue Recovery is not effectively identifying or collecting delinquent accounts, specifically in regard to utility accounts and tax and license accounts. The section does not use an aging report to identify the delinquent accounts, does not contact customers timely, is not consistently making collection efforts before beginning the write-off process and does not evaluate the outside collection agency's results to determine the effectiveness of the process.

Further, uncollectible tax and license receivables were not written off in accordance with accounting department procedures. Revenue Recovery is not effective in collecting other City department's delinquent accounts. Documented collection efforts for these accounts were inconsistent. Also, Revenue Recovery management reported that other departments generally only refer delinquent accounts for collections if prompted by accounting staff during the annual write-off process. The information currently provided in the annual write-off process is not detailed enough for Revenue Recovery's review to be effective.

Revenue Recovery does not have complete or organized policies, procedures and workflows for efficient and effective collection activity and is not currently using the state's debt set-off program as part of its collection efforts. Additionally, Revenue Recovery management and oversight could be improved. It does not have a transparent public policy for how its site visits are conducted to collect delinquent accounts and should reconsider its policy to allow revenue collectors to collect cash when on these site visits. Publicly available information on how Revenue Recovery staff would conduct a site visit could help protect the public against fraudulent activity.

Revenue Recovery does not track department or individual collection data for effective program management and oversight. Currently, Revenue Recovery includes all payments received on delinquent accounts in its results, regardless of revenue collector involvement. Similarly, a method has not been developed to evaluate the effectiveness of transaction privilege tax collection efforts when working at the state Department of Revenue (DOR). Establishing performance measures for a minimum number of collection-related calls and emails may help ensure that delinquent customers are contacted timely. Revenue Recovery staff prepare activity logs that are not complete or detailed. Management should

provide written guidance to detail what is required for the activity logs. Business Services agreed with the audit recommendations.

Councilwoman Whitehead inquired if this involves staffing or procedural issues. Jacqueline Denlinger, Business Services, commented that there are always staffing issues. The audit captured much of what they “don’t do,” and did not capture what they “actually do.” It did not address calls that are made on a daily basis. The department will begin a greater focus in terms of reporting on collection of DOR transaction privilege tax. Councilmember Korte noted that collections is a component of every business and she was disappointed in the lack of process in terms of reviewing past due receivables.

Chair Littlefield stressed the need for better documentation in terms of collecting delinquent accounts, including past history. She noted it would be helpful to use an aging analysis system. The process should include factors not only regarding how old an account is, but also how large. Decisions can be made based on the financial feasibility of collecting on very small accounts versus more significant accounts. It is also critical that proper attention is given to other departments who are providing delinquent bills for collection. The report indicated that a number of these cases were not followed up on. Standardization of policy, procedures and forms is also important. There should also be a consistent and adequate write-off policy.

COUNCILWOMAN WHITEHEAD MOVED TO ACCEPT AUDIT NO. 1911. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER KORTE, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

6. Informational Report Regarding the 2nd Quarter Commissioner Young 2019 Taxpayer Problem Resolution Officer Report

Ms. Walker stated that the report is provided as information only. There were no questions posed.

7. City Auditor Updates, Including Statute of FY 2019/20 Audit Plan

Ms. Walker stated that the department is on target with the number of audits.

Chair Littlefield suggested that they add the new Veterans Commission to the rotation cycle for sunset reviews.

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

Ms. Walker updated the Committee that the next meeting (November 12) will have an earlier start time of 3 p.m. due to the 5 p.m. Council meeting that evening. The location will be the City Attorney Conference Room. The upcoming meeting will include two sunset reviews (Transportation Commission and Paths & Trails Subcommittee), the financial audit, Police Department Special Revenues audit, Warehouse Operations audit and quarterly updates.

Adjournment

With no further business to discuss, the meeting adjourned at 4:37 p.m.

SUBMITTED BY:

eScribers, LLC