

APPROVED ON 04/25/2022



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING MINUTES**

**7447 E. Indian School Road, 3rd Floor
Community Services Conference Room
Scottsdale, Arizona 85251**

Monday, January 24, 2022

PRESENT: Kathy Littlefield, Chair
Tom Durham, Councilmember
Solange Whitehead, Councilwoman

STAFF: Sharron Walker, City Auditor
Elizabeth Brandt, Senior Auditor
Paul Christiansen, Senior Auditor
Lai Cluff, Senior Auditor
Brad Hubert, Senior Auditor
Shelby Trimaloff, Exec. Asst. to City Auditor
Brent Stockwell, Assistant City Manager
Karen Churchard, Director of Tourism and Events
Bill Murphy, Assistant City Manager
Kira Peters, Community Services Administrator
Nick Molinari, Parks and Recreation Director

CALL TO ORDER

The meeting was called to order at 4:02 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

PUBLIC COMMENT

No written comments were submitted, and no members of the public had requested to speak.

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, November 15, 2021

Chair Littlefield called for approval of the minutes.

COUNCILWOMAN WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE NOVEMBER 15, 2021 REGULAR MEETING AS PRESENTED. COUNCILMEMBER DURHAM SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

2. Discussion and possible direction to staff regarding Audit No. 2206, Destination Marketing Contract

Elizabeth Brandt, Senior Auditor, stated that Experience Scottsdale is a membership based nonprofit destination marketing organization. The current five-year contract expires on June 30, 2022. Fifty percent of the City's bed taxes fund the contract. From Fiscal Years 2017/18 through 2020/21, the City's annual cost has ranged from \$9.1 million to \$11.4 million.

The audit's three findings were reviewed:

- 1) The destination marketing contract can be strengthened by addressing more operating risks. Currently, the contract allows Experience Scottsdale to commingle accounting and reporting of its City funding with other revenue and expenses. Specifically:
 - Experience Scottsdale's net assets increased by almost \$2.6 million in FY 2020/21 due to the pandemic-related decrease in program expenses.
 - The current budget format does not provide data on actual revenues, expenses and net assets.
 - The City may want to consider a different fee mechanism, such as a sliding scale of bed tax revenues or a fixed contract amount.
 - The contract does not address ownership of intellectual property.
- 2) Contract terms are not sufficient to limit administrative costs and maximize the Destination Marketing Programs.
 - Audited financial statements show the contractor's management and general expenses ranged from 15 to 21 percent of total expenses instead of the 7 percent administrative cost reported to the City.
 - Employee compensation represents a substantial use of City bed tax monies.
- 3) Performance monitoring activities can better ensure focus on the City's objectives and contract compliance.
 - Performance standards can be better focused on the City's objective and the funding priorities.

- Marketing efforts have not been measured regularly for effectiveness, performance standards are not clearly defined and leads are only forwarded to the organization's members.

Audit recommendations include:

- Require a full accounting of City bed tax monies and consider a different fee approach.
- Strengthen fiscal monitoring over the use of the City bed tax monies.
- Improve performance standards and evaluation of marketing programs.

Karen Churchard, Director of Tourism & Events, commented that after the audit was performed, Scottsdale was named as one of nine best destinations in the world by Condé Nast Traveler, which was the only city in the United States to receive the designation. She also recognized that the highlighted businesses are not actually located in Scottsdale.

Councilmember Durham asked about how easy or difficult the process of allocating funds would be, given that Experience Scottsdale is receiving funds from several sources. Sharron Walker, City Auditor, explained that some solutions include more in-depth accounting and adjusting the contract to be more specific in terms of allowable uses of the City's money. Councilmember Durham asked how salaries get allocated between administrative and program areas. Ms. Walker explained that one way to do it is based on their organizational structure. Also, with the new financial reporting standard they are already doing this allocation, so her office was able to use the audited financial statement information for the analysis.

Councilwoman Whitehead asked whether there were stipulations for the Prop 302 funding. Ms. Churchard stated that the City has to provide a signed affidavit to the Arizona Office of Tourism stating that its destination marketing organization is Experience Scottsdale for it to get the funding. Experience Scottsdale must apply, identifying a specific project that the funding will be used for.

In response to Councilwoman Whitehead, Ms. Churchard stated that she thinks Experience Scottsdale did not receive funding this year from SRPMIC, but they did receive funding in one of the three years covered in the audit. Also, there are both public and private members of the Experience Scottsdale marketing network, including the Town of Paradise Valley, area hotels, and other entities and businesses.

Chair Littlefield stated that she agreed with the audit findings and suggestions. The concern is not whether Experience Scottsdale is doing a good job. The concerns are with the accounting. The City is allocating millions of public dollars to Experience Scottsdale on an annual basis, and there has to be accurate accounting on behalf of the citizens that the City is getting full value. Accounting procedures need to be improved and clarified to specifically address Scottsdale's funding balances and expenditures. The contract terms need to be tightened to limit administrative costs and to maximize the distinction in the marketing programs between Scottsdale and other clients. It would be helpful to see a comparison of Experience Scottsdale lead employee salaries versus comparable other destination marketing companies. Quarterly or semiannual reports should be submitted to the contract administrator for evaluation.

COUNCILMEMBER DURHAM MOVED TO ACCEPT AUDIT NO. 2206, DESTINATION MARKETING CONTRACT, AS SUBMITTED. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

3. Discussion and possible direction to staff regarding Audit No. 2113 Coronado Golf Course Lease

Paul Christiansen, Senior Auditor, stated that this audit evaluated contract compliance and effectiveness of contract administration for the Coronado Golf Course lease. Scottsdale owns 36 acres of the 44-acre Coronado Golf Course. Since 1976, the City-owned land along with 8 acres owned by Odanoroc, LLC has been operated as a nine hole golf course and driving range. In 2005, the City entered a new 30-year lease with Odanoroc, LLC to operate the golf course.

Audit findings were reviewed:

- 1) Despite operator noncompliance, remedial actions have not been taken. The lease agreement requires the golf course operator to meet certain obligations, however the operator failed to do the following:
 - Did not make the first lease payment in July 2021.
 - Did not provide transaction data or other records to support the summary amounts provided.
 - Had not resolve prior safety maintenance issues timely.
- 2) The contract file should be more complete and organized. City policies require the contract administrator to maintain documents pertaining to contract-related activity in a contract file, however the following findings were made:
 - The reasoning and justification for not taking enforcement action for the golf course operator's noncompliance is not documented.
 - Historical documentation of known past performance issues was not maintained in the contract file.
 - Contract file organization and retention practices can be improved.

The audit recommends that the Parks and Recreation Director ensure that the contract administrator:

- Works with the City Attorney's Office to identify appropriate contract remedies to obtain compliance from the golf course operator.
- Documents decisions and actions related to contract performance and operations and develops an effective organizational system for the contract file.

Management agreed with the audit findings and plans to implement the recommendations by the end of May 2022.

In response to a question from Councilwoman Whitehead, Nick Molinari, Parks and Recreation Director, confirmed that the department has been in communication with the legal department and has drafted a new contract amendment for the golf course operator, which should be more easily and effectively administered by City staff.

Bill Murphy, Assistant City Manager, provided a brief history of the property and noted that given the effects of the pandemic, the golf course operator is operating the business with much reduced staffing. The contract changes are expected to address the audit concerns. In response to a question from Councilwoman Whitehead, Mr. Molinari noted that the operator provides an important service as the only affordable golf course in Scottsdale. Also, the land that he owns provides some leverage in terms of importance. Ms. Walker commented that the current lease agreement provides that if the operator is in default, the City has the right to use his land to continue operating the golf course.

Councilmember Durham asked if the City is about to get paid. Mr. Molinari responded that staff sent a follow-up invoice for the balance due when they recently sent the contract amendment. Councilmember Durham commented that the purpose of this course is to provide a relatively inexpensive course, so that has to be taken into context.

Chair Littlefield commented on the history of past issues with the course, while noting that its affordability is a huge benefit. Her biggest concern was not with the golf course itself, but with the difficulties the City has had with contract administration for several years. The process is fragmented, with little instruction to the contract administrator. We need some sort of instructional standardization on contract administration, and the City Manager, and perhaps the City Auditor and City Attorney, need to take some part in that.

COUNCILMEMBER DURHAM MOVED TO ACCEPT AUDIT NO. 2113, CORONADO GOLF COURSE LEASE, AS SUBMITTED. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

4. Discussion and possible direction to staff regarding 2nd Quarter FY 2021/22 Follow Up on Status of Audit Recommendations

Ms. Walker stated that the implementation status is looking good for the quarter. Approximately 76 percent of recommendations have been implemented or partly implemented with approximately 23 percent in progress.

5. City Auditor updates, including status of FY 2021/22 Audit Plan

Ms. Walker stated that Paul Christiansen has become a certified information systems auditor. The Department currently has one vacant position with recruitment open. She met recently with the Scottsdale Unified School District Audit Committee to provide some guidance for the development of their audit plan.

In terms of the project status update, a couple of audits have been moved to the August timeframe, due to the vacant position as well as some unforeseen delays in other audits. The Department is on target with six reports at this time.

In response to a question from Chair Littlefield, Ms. Walker stated that the E-Verify audits meet a state law requirement. When these were completed on a less frequent basis a few

years ago, a state agency providing funding to the City questioned the practice. The sample size is kept to a minimum and processes are streamlined.

6. Discussion and possible direction to staff regarding potential agenda items for next Audit Committee meeting

Ms. Walker noted that there will not be any newly completed audits in time for a February meeting, so the next meeting is planned for March 21st. That agenda will include a sunset review. Anticipated audits include crime reporting statistics and the E-Verify audit. It is possible that the Parks and Recreation Resource Management audit may also be ready.

Adjournment

With no further business to discuss, being duly moved by Councilwoman Whitehead and seconded by Councilmember Durham, the meeting adjourned at 5:00 p.m.

SUBMITTED BY:

eScribers, LLC