

**APPROVED ON 6/26/25**



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

**City Hall Kiva Conference Room  
3939 N. Drinkwater Boulevard  
Scottsdale, AZ 85251**

**Friday, April 11, 2025**

- PRESENT:** Councilwoman Maryann McAllen, Chair  
Councilman Barry Graham  
Councilwoman Solange Whitehead (via Telephone)
- STAFF:** Lai Cluff, Acting City Auditor  
Travis Attkisson, Senior Auditor  
Mel Merrill, Senior Auditor  
Shelby Trimaloff, Executive Assistant to City Auditor  
Adam Yaron, Planning and Development Area Manager  
Jordan Fasano, Division Finance Manager  
Alison Tymkiw, City Engineer
- GUESTS:** Jared Young, Audit Manager, Heinfeld Meech  
Kevin Burnett, Principal Consultant, Willdan Financial Services

**CALL TO ORDER / ROLL CALL**

The meeting was called to order at 4:07 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

**NOMINATIONS AND ELECTION OF AUDIT COMMITTEE CHAIR**

COUNCILWOMAN WHITEHEAD NOMINATED COUNCILWOMAN MCALLEN AS CHAIR. WITH NO OTHER NOMINATIONS RECEIVED, NOMINATIONS CLOSED. COUNCILWOMAN MCALLEN WAS ELECTED CHAIR 2-1 WITH COUNCILWOMAN WHITEHEAD AND COUNCILWOMAN MCALLEN VOTING IN THE AFFIRMATIVE, AND COUNCILMAN GRAHAM DISSENTING.

**PUBLIC COMMENT**

No spoken or written comments were presented.

## **REGULAR AGENDA**

### **1. Approval of Minutes, Regular Meeting – November 18, 2024**

Chair McAllen called for approval of the minutes.

COUNCILWOMAN WHITEHEAD MOVED FOR APPROVAL OF THE REGULAR MEETING MINUTES OF NOVEMBER 18, 2024. COUNCILMAN GRAHAM SECONDED THE MOTION. MOTION APPROVED 3-0 WITH CHAIR MCALLEN, COUNCILMAN GRAHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

### **2. Historic Preservation Commission Sunset Review**

Mel Merrill, Senior Auditor, provided an overview of the purpose of the Historic Preservation Commission as well as the last three annual reports from the Commission. The Audit Committee has been asked to evaluate whether the Commission is serving its intended purpose and make a recommendation to the City Council whether to continue, modify, or terminate the Commission. The staff liaison, Planning and Development Area Manager Adam Yaron, was available to answer any questions.

Councilwoman Whitehead stated this commission has proven to be harder than expected but is still very necessary.

COUNCILWOMAN WHITEHEAD MOVED TO RECOMMEND TO CITY COUNCIL TO CONTINUE THE HISTORIC PRESERVATION COMMISSION. COUNCILMAN GRAHAM SECONDED THE MOTION. MOTION APPROVED 3-0 WITH CHAIR MCALLEN, COUNCILMAN GRAHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

### **3. Update on Completion of FY2023/24 Annual Financial Report**

Jared Young, Audit Manager, with Heinfeld Meech, external audit firm for the City of Scottsdale, reviewed the following reports:

#### **a. FY2023/24 Annual Expenditure Limitation Report**

The Independent Account Report over the City's Annual Expenditure Limitation Report for the year ending June 30, 2024. A one-page opinion was issued noting the report was in accordance with the Uniform Expenditure Reporting system established by the State of Arizona, more specifically, the constitutional requirements about expenditure limitations on cities and other local units of government.

#### **b. FY2023/24 HUD Report Package**

These reports pertain to housing programs within the City's Community Systems Office. The Independent Auditors Report on the financial data schedules, required by the Department of Housing and Urban Development (HUD), found that the City's Housing Choice Voucher Program's annual activities were reported fairly compared to the accounting records and other financial statements.

The Independent Auditor's Report addresses the 11 agreed upon procedures required by HUD for comparing certain elements of information presented in financial data schedules to other specific reports. Many of these reports relate to the single audit reporting package discussed in November or December. All procedures were agreed upon, deadlines were met, and there were no outstanding issues to report.

Mr. Young addressed Members' questions, stating that report submission methods to HUD remain unchanged, although some reporting requirements have altered. No changes are expected for the Housing Choice Voucher program or other housing assistance programs. The priority remains ensuring financial records are accurate, complete, and error-free.

#### **4. Report 2504, Biennial Certified Audit of LUA, IIP & Development Impact Fees**

Lai Cluff, Acting City Auditor, clarified that this concerns the biennial certified audit of the City's water and wastewater utilities land use assumptions (LUA), Infrastructure Improvement Plan (IIP), and development impact fees, which must be completed to comply with State statutes. The review must be conducted by an external firm in accordance with State statutes.

Kevin Burnett, Principal Consultant at Willdan Financial Services, summarized the audit. Development fees adopted in 2021 require cities to create a ten-year plan for water meter sales and sewer customers based on the best available data. The City is now three years into this plan.

- The first requirement is for an independent group to conduct a biannual audit to compare the City's progress with projections. While the current ones are slightly behind, there are no concerns as it is only year three.
- The second requirement involves reviewing the IIP, which outlines new developments in water and wastewater, associated costs, and projected timelines over a ten-year period. It was determined that the timing was off for some of the projects; however, funds were spent appropriately on the development.
- The third requirement is to maintain service levels for existing customers when adding new water or sewer connections. No changes in service levels were found for existing customers.
- The fourth test is not required by statute, but 60 permits were sampled to verify developers were charged accurate fees. No inappropriate charges were found.

In response to Member questions, Mr. Burnett explained that 60 samples are considered twice the statistically significant sample size. He also reviewed the process for selecting the 60 permits using intervals. The audit's scope did not include assessing whether the fees are appropriate or sufficient to cover costs. The purpose is to ensure that impact fees are collected and spent correctly. However, any significant discrepancy would be investigated and noted in the report.

Councilman Graham asked how to determine if the impact fees are covering costs. A discussion followed regarding the review process for the fees, tracking completed projects, and monitoring the revenue received.

**COUNCILWOMAN WHITEHEAD MOVED TO ACCEPT REPORT NO. 2504, BIENNIAL CERTIFIED AUDIT OF LUA, IIP, AND DEVELOPMENT IMPACT FEES, AND PROCEED WITH THE REQUIRED PUBLIC HEARING WITHIN THE 60-DAY PERIOD.**

COUNCILMEMBER GRAHAM SECONDED THE MOTION. MOTION APPROVED 3-0, WITH CHAIR MCALLEN, COUNCILMAN GRAHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

## **5. Audit No. 2204, TGTF Construction Project Management**

Travis Attkisson, Senior Auditor, reviewed the Thomas Ground Treatment Facility (TGTF) Construction Project in a routine audit focusing on contract administration, compliance, and cost effectiveness.

The project overview noted that Capital Project Management oversaw management while Water Resources Engineering provided oversight and direction. Using the Construction Manager at Risk (CMAR) delivery method, an architect designed the facility and a general contractor functioned as the CMAR. The CMAR contractor submitted a guaranteed maximum price (GMP) proposal after the design phase. The design phase began in 2016 and construction finished in 2023, with a total cost of about \$32 million, funded by water rates and municipal property corporation bonds.

The audit identified four main areas for improvement in contract and construction administration.

Finding 1: Insufficient evaluation of the GMP proposal and lack of monitoring of subcontract selection results increased the risk of paying higher construction costs.

- An independent estimate or review of the GMP cost proposal was not obtained, and certain aspects of the proposal were not adequately reviewed. For example, about \$364,000 of direct construction costs (i.e. Contract amount for Cost of Work) were not supported by the cost proposal attached to the contract and a breakdown of the \$1.9 million General Conditions cost for GMP 2 was not included in the proposal.
- As well, competitive subcontractor bids only covered about 24% of the direct construction costs when the GMP was negotiated. A final subcontractor bid summary or list of selected subcontractors was not later obtained to verify final amounts and ensure a competitive selection process for those trades that would also be evaluated based on price.
- The audit recommended establishing requirements for detailed support of approved costs and evaluation of the GMP proposal. As well as monitoring of subcontractor selection and final costs.

Finding 2: Contract language for payment terms are too broad, allowing terms to be decided informally. Payment terms needed to be evaluated for cost- benefit.

- The CMAR construction contract describes the various payment methods that may be applied but does not clearly identify which one will be applied to that contract. We found that this led to differences within the project team on evaluating payment amounts.
- As applied, construction work items were paid as lump sum items, based on the percentage completed each month. The Guaranteed Maximum Price is intended to be a price ceiling, not a fixed price. And while a CMAR construction contract can be negotiated as a fixed price contract, it is not advantageous to do so when there was limited pricing competition and the likelihood of design changes.

- The audit recommended that the department establish guidelines for evaluating the best-fit payment terms. However, it also noted that the existing contract language does not contain sufficient parameters for effectively managing a cost plus fee with GMP payment method – the contract would need to specify what types of costs are reimbursable and require documentation and reporting of final costs.

Finding 3: Internal controls over invoice payment and change orders are inadequate, increasing the risk of errors, budget overruns and duplicate payments. Implementing construction management software could help address issues.

- The Schedule of Values provides a breakdown of the Contract Price into pay items and is used as the basis for the CMAR's monthly pay application. The audit found that the it did not align with the GMP cost proposal and contained some errors, including different cost categories and amount breakdowns. Not reconciling the SOV to the cost proposal makes it difficult to monitor approved costs.
- Changes to contract work need to be better monitored. Overall, we found that the method of communicating change approvals was informal, and in many cases, final approval happened after the work had been initiated or completed; and to minimize the number of contract change orders, changes were accumulated and combined before executing one change order at project closeout.
- The audit also made recommendations for strengthening internal controls over payment processes to reduce the risk of errors such as duplicate payments and data entry errors. Along with other minor entry errors, 2 duplicate payments were issued that had to be corrected later on.

Finding 4: Project delays, final inspections, and facility commissioning were not adequately documented, potentially leading to higher costs for the City related to schedule delays and equipment replacements.

- Project completion was about 2 years later than established in the construction contract. However, causes for schedule delays were not documented and a contract time extension was issued at the completion of the project.
- Other records required at project completion were incomplete and/or not retained, including final inspections, punch lists, and results of building and equipment testing and validation.
- Based on this audit and prior audit recommendations relating to project controls and documentation, the department should evaluate options for using construction management software solutions to improve efficiency.

City Engineer Alison Tymkiw commented on the audit results, noting that the contract was from 2019 and that standard contract wording has undergone two language revisions. Several changes have been implemented within the department:

- The organizational structure was adjusted to form three project management groups with a principal project manager for each group for the discipline areas of water and wastewater, transportation and drainage, and vertical construction and parks.

- Construction staff were incorporated into the project management groups, working collaboratively and providing enhanced measurement of quantities, responsibilities, and communication.
- Procedural adjustments were made for payouts and invoicing. A budget request was made for project management software aimed at improving efficiency, tracking requests for information, change orders, quantities, and payouts.
- Comprehensive reviews of cost proposals are now conducted using an in-house cost estimator, with recent contracts being established with an external cost estimator to review project costs.
- The approach to tracking GMPs has been revised by discontinuing the practice of tracking multiple GMPs.

In response to Council Member questions about project management software costs and use of CMAR method, Ms. Tymkiw stated that the requested amount for software may not be enough but will not know until a thorough selection process is completed. She believes in the CMAR, which does have its time and place, but it is getting better.

Councilwoman Whitehead suggested the Audit Committee review a more recent project.

Ms. Tymkiw responded to Councilman Graham's inquiries by stating that direct construction costs do not always need to be at 100 percent subcontracted, as this depends on how much work the contractor plans to perform themselves. Ms. Cluff clarified that for self-performing work that the contractor intended to compete for, there should be documentation of that process and none was provided.

Ms. Tymkiw described how cost proposals are reviewed and authorized by the City Council. However, at this time, the contractor has not selected subcontractors. When subcontractors are secured, the actual scheduled value is available and may differ from the cost proposal but must not exceed the GMP amount. Many of the 31 change orders submitted after all work was performed came from the Water Department, which made authorized on-site changes on a time and material basis. Ms. Cluff clarified that these change orders were planned and cost proposals were submitted for approval.

Ms. Cluff clarified that the audit was chosen following a risk assessment of construction projects. The selection of this particular project occurred in September of 2022, but after preliminary work it was postponed due to the unavailability of supporting documentation, delays in project closeout, and changes in staffing. Ms. Cluff indicated that a placeholder is generally approved within the audit plan for a construction audit. Typically, a construction audit is fairly comprehensive and is budgeted as a large audit.

Ms. Tymkiw expressed confidence in the changes that have been implemented by CPM. She does not recall the exact budget amount requested for the software, and no test runs have been conducted as only a preliminary search has been performed. As part of the search process, they plan to contact other municipalities to inquire about the software they are utilizing and to gather any relevant feedback.

COUNCILWOMAN WHITEHEAD MOVED TO ACCEPT AUDIT NO. 2204, TGTF CONSTRUCTION PROJECT MANAGEMENT, AS SUBMITTED. COUNCILMEMBER GRAHAM SECONDED THE MOTION. MOTION APPROVED 3-0, WITH CHAIR MCALLEN, COUNCILMAN GRAHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

## **6. 3<sup>rd</sup> Quarter FY 2024/25 Follow Up Status of Audit Recommendations**

Lai Cluff, Acting City Auditor, presented and discussed the follow-up status for 11 audits during the third quarter. Among these audits were first-time follow ups, such as Library operations management, bridge infrastructure, identity and access management, and the Police Equitable Sharing Program. Overall, progress is being made across all areas; however, some audits are experiencing delays due to staff turnover and software transitions. Specific examples were discussed.

In response to inquiries from the Members, Ms. Cluff remarked that staff in all departments are cooperative, although some new personnel require additional time to be acquainted with the audit.

## **7. City Auditor Updates, Including Status of FY2024/25 Audit Plan**

Lai Cluff, Acting City Auditor, presented and discussed the status of the audit projects. Two of these reports were presented outside the committee:

- DC Ranch CFD: Review of proposed maintenance cost, presented to the CFD Board in March and a report also provided to the City Manager and City Treasurer.
- SUSD: Student transportation, presented to their audit committee on April 4, 2025.

The E-Verify audit is nearly complete and will likely be presented at the next meeting. The Police RMS/JMS IT audit and construction services procurement audit are currently in the preliminary stages. The Fire Department succession planning audit is ready to start, and information will be sent to the Committee and the City Council next week. The investigative services case management and use of cooperative purchasing audits will be rescheduled to a later plan year due to timing of current audits in these departments and the transition of case management to new software. The RFP for financial audit is behind schedule but expected to be finalized within a couple weeks and presented to the City Council in June.

In response to Member questions, Ms. Cluff advised that at the next meeting the committee will discuss the next fiscal year audit plan before a proposed plan is brought forth in June. The committee further discussed classifying audits in the audit plan by size for resource allocation, with Ms. Cluff clarifying that this may change during the audit depending on the risks encountered.

## **8. Proposed Audit Committee Meeting Dates for CY 2025**

Lai Cluff, Acting City Auditor, presented the proposed 2025 Audit Committee meeting schedule. Most of the days are Thursdays, with occasional Fridays due to conflicts with the City Council calendar. These dates were also compared with other board and commission meeting dates to avoid conflicts. Ms. Cluff also mentioned that not all meeting dates will be needed, and some may change if conflicts arise.

COUNCILWOMAN WHITEHEAD MOVED TO ACCEPT THE CY 2025 AUDIT COMMITTEE MEETING DATES AS PROPOSED. COUNCILMEMBER GRAHAM SECONDED THE MOTION. MOTION APPROVED 3-0, WITH CHAIR MCALLEN, COUNCILMAN GRAHAM AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

## **9. Possible Items for next meeting**

Lai Cluff, Acting City Auditor, advised that the next meeting is on May 22, 2025, at 4:00 p.m. Proposed agenda items include:

- Sunset Review of the Human Relations Commission
- E- Verify compliance audit
- Discussion of preliminary topics for the next audit plan

## **Adjournment**

With no further business to discuss, being duly moved by Councilwoman Whitehead and seconded by Councilman Graham, the meeting adjourned at 5:06 p.m.

SUBMITTED BY:

eScribers, LLC.