

**APPROVED MINUTES
APPROVED ON 10/19/2015**



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

MONDAY, AUGUST 24, 2015

**CITY HALL
KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251**

REGULAR MEETING

PRESENT: Suzanne Klapp, Chair
Virginia Korte, Councilmember
Kathy Littlefield, Councilwoman

STAFF: Sharron Walker, City Auditor
Kyla Anderson, City Auditor's Office
Cathleen Davis, City Auditor's Office
Michael Clack, Planning & Development Department
Tim Curtis, Planning & Development Department

CALL TO ORDER

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

1. Approval of Minutes, Regular Meeting, June 22, 2015

COUNCILWOMAN LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE JUNE 22, 2015 REGULAR MEETING. COUNCILMEMBER KORTE SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

2. Discussion and Possible Direction to Staff Regarding Building Advisory Board of Appeals Sunset Review

City Auditor Sharron Walker reviewed the mandate of the Building Advisory Board of Appeals and the Audit Committee's charge, which is to evaluate whether the board being reviewed is serving its intended purpose; whether the purpose should be

maintained or modified; and whether the purpose has been served or is no longer required. Specifically, the Audit Committee is to recommend to the City Council whether to continue or terminate the board or commission being reviewed. Ms. Walker noted that Michael Clack of the Planning & Development was in attendance. Mr. Clack stated that staff is currently in the process of adopting the 2015 Building Codes, which will include the International Building Code adopted by the International Code Council covering residential, plumbing, gas, mechanical and also the Fire Code over the next several months. One function of the Building Advisory Board of Appeals is to review the amendments to the Code at their meetings. This offers the public an opportunity to make comments on the proposed changes. The Board Members will make recommendations on the amendments, which are reviewed and ultimately forwarded to City Council for consideration. The Codes are only updated once every three years.

The Building Advisory Board of Appeals is also available to settle any disputes between City building officials and architects and engineers on how the Code is to be interpreted. However Mr. Clack added that in his almost 11 years at the City, staff has been able to work out these disagreements so they have not had to take any disputes to the Board. The Board does not have the authority to waive any requirements of the Code. Staff intends to bring the Board's recommendations on the Code to City Council in the first quarter of 2016.

COUNCILMEMBER KORTE MOVED TO RECOMMEND TO THE COUNCIL THE CONTINUATION OF THE BUILDING ADVISORY BOARD OF APPEALS, COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

3. Discussion and possible direction to staff regarding Board of Adjustment Sunset Review

Ms. Walker explained that the purpose of the Board of Adjustment is to hear all applications for variances from the provisions of the zoning ordinance and appeals of the zoning administrator's decisions. Board decisions may be appealed to the Superior Court within 30 days after the decision. Ms. Walker noted that Tim Curtis of the Planning & Development Department was in attendance.

Chair Klapp inquired whether this board is required by State law. Ms. Walker replied that State law requires that the Council act as the Board of Adjustment if there is not a separate board.

COUNCILMEMBER KORTE MOVED TO RECOMMEND TO THE COUNCIL THE CONTINUATION OF THE BOARD OF ADJUSTMENT, COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

4. Discussion and Possible Direction to staff regarding CY 2015 2nd Quarter Taxpayer Problem Resolution Officer Report

Senior Auditor Cathleen Davis presented the Taxpayer Problem Resolution Officer report for the period of April through June 2015. Results continue to be positive for the Tax and License customer service and billing areas.

This year fewer tax audit surveys were mailed compared to the second quarter of 2014, and no responses were received. Starting in 2015, all audits are run through the Arizona Department of Revenue, which would handle any surveys for those audits.

5 Discussion and possible direction to staff regarding status of FY 2015/2016 Audit Plan

Ms. Walker noted that when she presents the audit plan to be approved in June, the first few months in the summer seem to be behind schedule. She has contemplated creating the annual work plan in December rather than in June to avoid the fiscal year end rush. Chair Klapp commented that they typically catch up over the year so she does not see this as a concern.

Ms. Walker explained that for workload balance, she tries to have larger and smaller projects on each annual plan. This time they started with the construction contract audit continued from last year's plan, which is one of the bigger projects. Also, the audit involves working with an external contractor who must be oriented to the process. So to allow added time for that, she plans to present the construction contract audit report to the Committee in October rather than September. The Committee Members agreed it is preferable to hold a longer meeting in October and not meet in September.

Ms. Walker said the Environmental Quality Advisory Board sunset review will take place at the November meeting. The Board chair would like to attend and is not available for the October meeting date. Since Ms. Walker initiated the rescheduling of this sunset review, she is accommodating the chair's request.

Ms. Walker noted she has added another project to the Audit Plan at the request of the Acting City Manager Brian Biesemeyer and Public Works Director Dan Worth. Because the timing would not work to get Audit Committee approval of the change and submit documents for the Council Report when due, this added project is not included in the audit plan going to City Council for approval on August 25. However, the Audit Committee does have the authority to approve changes to the audit plan. The SkySong residential rent audit has been added because the ASU Foundation has sold its residential building. The terms of their ground lease with the City requires that if the residential building is sold the net profit above a certain amount is to be split 50/50. The residential rent statement was received in July after the annual audit plan had been approved by the Audit Committee. Mr. Worth and the Acting City Manager have requested that these calculations be audited. Ms. Walker has assigned staff to conduct this audit once the construction contract audit is completed. The Audit Committee members agreed with the addition. Chair Klapp inquired if there is a new agreement with the new property owner. Ms. Walker stated she didn't know but expected that there may be some kind of an agreement with them.

6 Discussion on Audit Report Style Research and Training

Ms. Walker said this item is on the agenda for discussion as she is always looking for ways to make the audit reports more effective. She presented slides of examples of different report formats, which will be distributed to the Audit Committee members via email since they were not completed in time to be attached to the agenda.

The examples included one from federal Government Accountability Office (GAO), which is an executive summary in a highlights format making the salient points easy to understand. Another example was the City of Sacramento Auditor's reports, which indicate the findings/conclusions on the report cover. In these reports, the Audit Fact Sheet is a very attractive highlights summary. As a third example, Maricopa County's audit reports are very summarized with information presented in tables. The cover sheet includes the table of contents.

Ms. Walker said she wants to work on something similar to the GAO highlights and the Sacramento fact sheet. Since the Office has no administrative support, she believes that they can create a template that would enable the auditors to generate the highlights document with a minimum of work. This would be reformatting the information they currently provide in the executive summary, and it could also be used as a stand-alone document suitable for posting on the website.

Ms. Walker said she is looking for ways to give the Committee Members a better understanding of their work when they present reports. For the first training topic, she presented background on fraud elements and how the Integrity Line operates.

Ms. Walker is a certified fraud examiner and a member of the ACFE. Association members are regularly surveyed on their occupational fraud cases, those that commit fraud where they work, then the results are compiled and reported. Statistics from the most recent ACFE survey report shows for governments the most common types of employee fraud are asset misappropriation and corruption. Organizations with fewer than 100 employees tend to have larger losses per occurrence because there is less separation of duties in a small organization. When a single employee defrauds an organization, the average loss was \$80,000 but in cases where a group of employees colluded, losses averaged \$300,000. Line level employees are the most frequent fraudsters, given their direct access to cash and other assets. Executive level fraud is less common but the losses are much greater.

A study where perpetrators were interviewed found that three factors typically come into play in employee fraud: pressure, opportunity and rationalization. Most who committed fraud were committing their first crime. Chair Klapp asked whether this information could be shared with supervisors. Ms. Walker said she has not done any fraud training at the City, although she has previously done this for other organizations. She agreed this would be a good idea. Ms. Walker summarized that there must be checks and balances to curb the opportunities for fraud because it's not possible to know the pressures and rationale that an employee may have. By creating an environment where the opportunity is not there, there can be an atmosphere of trust and all employees are better protected. It is easier to put the controls in place to preserve trust than to recover from a case of employee fraud.

Ms. Walker described the Integrity Line process. The ACFE reported statistics that show most frauds are detected thanks to tips, and having an integrity line means that fraud is detected more quickly and the losses are usually smaller. As information is received

through the Office's hotline, she assesses the information confidentially to determine whether it is sufficient to merit investigation. In the initial stages she is extremely careful not to cast suspicion where it may not be warranted. Part of establishing a fraud case is to determine whether someone is knowingly depriving the City of assets and intent is often the hardest element to prove to a jury. Some investigations may reveal that assets are missing, but the records may not necessarily be able to prove it's a result of fraud. In such cases the recommendation will be to tighten controls and record keeping.

Ms. Walker said she plans to discuss the entire auditing process with the Committee at future meetings as time permits. Committee Members agreed that this would be helpful.

7 Discussion and Possible Direction to Staff Regarding Agenda Items for Next Audit Committee Meeting (October 19, 2015)

Ms. Walker reviewed the draft agenda, including the construction contract audit of Scottsdale Road Improvements Phase 1, the McCormick-Stillman Railroad Park Operations audit, Special Event Contracts and quarterly updates.

Although it's noted on this draft agenda, the sunset review for the Environmental Quality Advisory Board will be in November.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 4:55 p.m.

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