

**APPROVED MINUTES
APPROVED ON 05/08/2017**



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

Monday, March 20, 2017

**City Hall, Kiva Conference Room
3939 North Drinkwater Blvd
Scottsdale, AZ 85251**

REGULAR MEETING

PRESENT: Suzanne Klapp, Vice Mayor, Chair
Virginia Korte, Councilmember
Kathy Littlefield, Councilwoman (arrived at 4:01 p.m.)

STAFF: Sharron Walker, City Auditor
Kyla Anderson, Senior Auditor
Lai Cluff, Senior Auditor
Brad Hartig, Chief Information Officer
Jim Thompson, City Manager
Robert Fisher, IT Director, Network Operations
Jacob Beard, IT Director, Applications/GIS

CALL TO ORDER

Chair Klapp called the meeting to order at 4:00 p.m. A formal roll call confirmed the presence of Chair Klapp and Councilmember Korte. Councilwoman Littlefield arrived at 4:01 p.m.

- 1. Approval of Minutes, Regular Meeting, January 23, 2017**

COUNCILMEMBER KORTE MOVED TO APPROVE THE MINUTES OF THE JANUARY 23, 2017 REGULAR MEETING AS PRESENTED. CHAIR KLAPP SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF TWO (2) TO ZERO (0). COUNCILWOMAN LITTLEFIELD HAD NOT YET ARRIVED.

2. Discussion and Possible Direction to Staff Regarding Audit No. 1708, Software Acquisition and Implementation

Lai Cluff, Senior Auditor, stated that Audit No. 1708 was performed to evaluate the effectiveness of the City's software acquisition and implementation policies and practices. The City contracted with Grant Thornton for specialists on this audit. In addition to reviewing IT policies and processes, four recent acquisitions were selected for more in depth review. This included review of how the acquisition and implementation process was managed across City departments. These systems included:

- ActiveNet – Community Services system used to manage class registrations, facility reservations and cashiering
- HSCAMS – Human Services Client Assistance Management System used to track client records and schedule meetings
- Munis – Citywide human resources and payroll system
- FleetMind – A combined hardware and software solution used by Solid Waste intended to optimize collection practices

Overall, the audit found that the projects lacked consistent guidance and oversight. IT's Project Management Office provided helpful assistance during the procurement phase of the projects by acting as the liaison between the departments and purchasing. However, additional guidance and oversight is needed in the initiation and implementation phases. Contract administrators are expected to take on the role of project manager, but they may not have sufficient prior experience or training to effectively manage software acquisition and implementation. The audit found that some key tasks were not consistently performed. Examples include:

- Goals and desired outcomes were not clearly defined in the initiation of the project and evaluated at project closeout.
- Adequate market research of alternatives was not documented prior to choosing sole-source (noncompetitive) procurements.
- Quality was not being monitored or controlled by requiring approved software testing plans and review of testing results.

The audit also found that projects did not consistently maintain or create necessary documentation. Certain documentation, such a testing plans and test results were not available to show whether the system was effectively implemented. Also, some contract-related documents, such as proposal, evaluations and contract deliverables were not available.

Ms. Cluff stated that Brad Hartig, Chief Information Officer, was available to answer questions.

Chair Klapp commented that it appears Mr. Hartig desperately needs project management staff in his department.

Mr. Hartig said that all the recommendations are based on best practices and that he agrees with the findings. At the same time, the necessary resources are lacking to implement the recommendations. Two positions were added this year as the Department was implementing the new disaster recovery systems. The Department is nearly doubling its infrastructure in terms of servers and networks. Beyond the two positions assisting with this task, no staff has been added. He would like to discuss with the City Manager about how this risk weighs against other potential risks. Some recommendations can be addressed; however, he is not adequately staffed to do the management and oversight recommendations.

In terms of the HSCAMS and with CLASS (ActiveNet), Mr. Hartig said that ultimately, they were considered to be fully implemented and operational though there were some bumps in the road getting there. Especially with HSCAMS the system required more work from staff, which met with resistance. Ms. Walker stated that the staff was used to protecting their client's information. Because HSCAMS shares information between different facilities for coordination of assistance, there was some discomfort among staff. This is why organizational change management is important, because it wasn't just resistance to change. Organizational change management is about bringing the staff along and getting them onboard with how their concerns would be addressed, and that the system secured and shared the information properly.

Ms. Walker stated that for all the audited areas, aside from the HR payroll system still underway, you could say that all are implemented successfully in that the software is up and running. But it took a long time for staff to really start using HSCAMS. Activenet is definitely being used because it is also the cashiering system but there was some discomfort with the contract terms. FleetMind is a separate issue, because it is not actually working effectively in managing solid waste routes. The department is still using manual processes and still trying to get the program to work almost three years later.

In response to a question from Chair Klapp, Ms. Walker said the FleetMind software is a commercial off-the-shelf system, and was not built specifically for the City's Solid Waste Department.

With at least two of these three systems not delivering according to expectations, Ms. Walker said this was the impetus for taking a look at software acquisition and implementation. From other audits performed in the past, it was evident that there were challenges. The system integrators and tech support staff generally have become very familiar with the system being used and do not necessarily know how to implement a new system successfully. A centralized project management office could be invaluable for the way IT is structured in departments. Chair Klapp said they have to consider how much risk is worth assuming by not having sufficient staff to support existing IT systems. Councilmember Korte suggested that perhaps the model needs to be changed.

Mr. Hartig said there is a Technology Partners program, where IT works with the people in the various departments. In some cases, staff in departments are not strong technologists, however, they are the subject matter experts for business processes.

Ms. Walker stated that the challenge is to figure out adequate support to meet all needs, given the varying levels of technology expertise. Because when large amounts of money are spent on systems, like Fleetmind, which was an investment in hardware and software, departments need to have enough support to make that investment pay off. The goal should not be just to get the system running, but to make the business processes more efficient and cost effective. Some departments need more support than others. Mr. Hartig said that Solid Waste is deriving value out of the system today compared to where they were. Ms. Walker said Solid Waste has been audited before and is currently being audited, and she does not completely agree with that. The department is using the software but their business processes are not better. They are still very paper based because the system does not do what they expected it to do. Chair Klapp asked if the system could be relied on. Ms. Walker said that Solid Waste is being audited right now, which is why the Software Acquisition and Implementation audit was extended to have the auditors review the Fleetmind acquisition and implementation because it did not seem to be a successful implementation. For example, the vehicle routing program and GPS are not working as intended.

Councilwoman Littlefield asked whether the purchase of this type of program comes with a guarantee that everything is working properly before final payment is made. Mr. Hartig said that most contracts include milestone payments. It is up to the contract administrator to ensure that milestones are met before payment is made.

Ms. Walker pointed out that the contractor administrator is the same system integrator and technical support staff who is also trying to manage the project, be the contract administrator and do a regular daily job.

Chair Klapp commented that there have been many discussions about the need for better training of contract administrators. Ms. Walker agreed, stating that in this instance there were some contract requirements that the contract administrator did not seem to be aware of.

Chair Klapp stated that oftentimes, there seems to be too much reliance on information from the vendor about a program, rather than internal research as to whether a program will fill the need. Mr. Hartig commented that the RFP process includes a definition of requirements. However, there is room for improvement in the purchasing process. In the past, IT would issue an RFI (Request for Information), but vendors do not respond to those anymore because there is no money in it. It is a challenge to know what opportunities are out there before writing the RFP requirements. He would like to do demos before writing the RFP, but from the Purchasing perspective there is a risk. If one vendor is favored at that point, the RFP may be written with bias toward that product. The challenge is how to make it an unbiased procurement but still have the best understanding of what the market has to offer ahead of time. Councilmember Korte commented that maybe they need to look at another organizational model with the contract administrators. Chair Klapp commented that decentralization works if the department has experienced technical staff, or central IT provides additional support. Mr. Hartig said communication may be an issue as well, because the department should reach out if they are struggling. Ms. Walker commented that during the audit, staff

praised the project management office for its help during the procurement and said they were aware that they could ask for help with the implementation but chose not to. But it may be a case of not knowing what you don't know or when things are not working right, and it also may be hard to admit when things are not working well.

Mr. Hartig said there are some recommendations that will not require a significant amount of resources to implement, but it is the ongoing oversight and management that he believes they are not currently in a position to do. Councilwoman Littlefield stated that a significant problem is lack of knowledge by the contract administrators and that proper training is essential. She asked Mr. Hartig if he has people or needs people that can help train the contract administrators and guide them through the acquisition and implementation process. Mr. Hartig said he does not have people to do that. IT has not added staff in years but continued to take on new technology. It sounds like contract administration issue is bigger than just IT, but IT is a component of that and training opportunities do exist. He would need additional resources to do that. Depending on how much of the management and oversight IT would take on, it could be 2-3 or as many as 4-5 additional staff.

Councilwoman Littlefield commented on the need for documentation to be available to administrators and to the department. She questioned the need for using sole source procurement of IT software. Mr. Hartig said there are cases where it is very applicable, such as five-year terms for certain systems. For example, the Police Department record management system will be up on its contract soon and it would be a significant effort to convert to another vendor from a process and data perspective. In addition, the RFP process can be challenging. It can be a struggle to have anyone respond and some vendors use a take it or leave it approach. Ms. Walker said that when you have an existing system that is working well, extending the contract makes sense, but in the audit examples are of new systems. If a sole source determination is made, the City also has less leverage in contract negotiations. It is a challenging environment for software acquisition. At a minimum, more templates, guidelines and requirements will be helpful to employees going through this process to show that they should be doing. Ideally, there would also be project management staff to help them..

Ms. Walker asked if Jim Thompson, City Manager, wanted to add anything further to the discussion. He said that IT is an internal function to the organization, touching departments in different ways. Some larger departments have staff that are at a different level than smaller departments. This issue affects purchasing as well. The contract administrator may not be involved in the buying discussion; that may be a different group. Once the process moves to the purchasing department, it brings a new department into the process. After this point, vendors become involved and a contract is drafted. The project then goes to the contract administrator, who may not have even been part of any of the process. That person should be involved so they know what was purchased and why so that they may be more successful in administering the contract. There are issues that are beyond even what Mr. Hartig has control of. There are some things that he can and can't do yet because of resource constraints. It is good to identify the findings through the audit, and then he has to evaluate the risks identified against other organizational risks and priorities. He will work with IT and Purchasing and take a look at some of the internal dynamics between the departments and IT. He has had discussions already about records retention and that has been cleared up. Mr. Thomson also commented that the utilization rate is good compared to other cities, which means that departments are using the software that they bought.

Mr. Hartig commented that for fifth or sixth year of the employee survey, the IT Department internal services received positive reviews. The benchmark results were 9 percent higher than the national benchmark.

Councilwoman Littlefield asked about concerns regarding the security of the systems. Mr. Hartig said yes, he is always concerned. That is the number one concern of most CIOs.

3. Discussion and Possible Direction to Staff Regarding FY 2015/16 Annual Expenditure Limitation Report

Kyla Anderson, Senior Auditor, said that as part of the external audit each year, the CPA form provides an attestation for the Annual Expenditure Limitation Report. The report revealed no problems of note.

4. Discussion Regarding Preliminary FY 2017/18 Audit Plan

Sharron Walker, City Auditor, addressed audit topics, first listing those that are required for next year. These include:

- Contracted CAFR audit – external CPA firm
- Integrity Line
- Follow up on prior audits
- E-Verify
- City Auditor's peer review
- City Court's minimum accounting standards review
- Construction contract audit
- Contracted IT audit
- Carry forward of one or two audits from FY 2016/17 (to be determined)

Some of the listed potential additional topics include:

- Miscellaneous expenses (expenses such as small tools and equipment, office supplies, clothing and personal protective equipment, ammo and weapons)
- Span of control (i.e., how many direct reports a supervisor has)
- Rates & fees cost recovery analysis
- IDEA data analysis project, which may be combined with another listed item, such as miscellaneous expenses analysis
- Cash handling controls and accountability

This initial list will be discussed in greater detail during the April meeting but preliminary feedback is being requested.

In response to a question from Councilmember Korte, Ms. Walker said that Museum of the West is approaching the three or four year mark of its contract and Scottsdale Arts was last audited in 2010/11. Councilmember Korte asked about the best practice for audit frequency. Ms. Walker said that there is not a specific cycle. Instead, there is an assessment process annually, which identifies issues, concern and interest. Audits performed on a fairly regular basis include items such as cash handling.

Chair Klapp asked about the timing of the last worker's compensation audit. Ms. Walker said the last audit was in 2008. Code enforcement has not been audited since 2009. Chair Klapp asked that for the next meeting, the topics be listed with dates of previous audits as well as risk order.

Councilmember Korte said she would like to see the Scottsdale Arts contract audited. Chair Klapp agreed. Referring to the on-body cameras potential audit, Councilwoman

Littlefield said she liked the idea of conducting a police audit on new technologies and best practices. In addition, she liked the potential audit on the traffic management center. Ms. Walker commented it is possible this one could be combined with the contracted IT audit since it is technology dependent.

5. Discussion and Possible Direction to Staff Regarding FY 2016/17 Audit Plan

For the project status update for March 2017, Ms. Walker noted a new item may be added, Recycling Contract Operating Cost Rate. The Director of Public Works had asked if Ms. Walker would be willing to audit the recycling contract operating cost rate. The contractor is asking to increase the operating cost rate. The contract amount for operating costs is \$70 per ton. Because of the increase in minimum wage, the recycling contractor is indicating that the operating cost rate needs to be raised.

Dan Worth indicated he would like to have an audit performed before simply agreeing to an increased cost rate. He would like to have assurance that the costs are above \$70 per ton before agreeing to come back to Council to ask for an amendment to the contract. The recycling contract does not include an audit clause. As such, Ms. Walker asked that something in writing be obtained showing that the contractor and subcontractor agree to be audited. If the contractor agrees to the audit so that this can go forward, Ms. Walker will inform Committee members via email and it can be formally approved at the next meeting.

In terms of the remaining audit list, the process is slightly behind schedule. Some audits are taking longer than expected, including the Commercial Solid Waste Operations and Pavement Operations. As such, one or two audits may have to be completed in the next fiscal year.

6. Discussion and Possible Direction to Staff Regarding Agenda Items for Next Audit Committee Meeting (April 24, 2017)

Ms. Walker said that there will be three audits included on this agenda. In addition, there will be ongoing discussion regarding the 2017/18 plan.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 5:16 p.m.

SUBMITTED BY:

eScribers, LLC