

**APPROVED MINUTES
APPROVED ON 11/13/2017**



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

Monday, September 18, 2017

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

REGULAR MEETING

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

STAFF: Sharron Walker, City Auditor
Kyla Anderson, Senior Auditor
Cathleen Davis, Senior Auditor
Eric Anderson, Sr. Asst. City Attorney II
Sylvia Dlott, Sr. Budget Analyst
Laurel Edgar, Real Estate Management Specialist
Dave Lipinski, City Engineer
Bill Murphy, Community Services Director
Jeff Nichols, City Treasurer
Reed Pryor, Parks & Recreation Director
Chris Walsh, Parks & Recreation Manager
Martha West, Sr. Real Estate Manager
Dan Worth, Public Works Director

GUESTS: Patty Badenoch, Coalition of Greater Scottsdale
Sonnie Kirtley, Coalition of Greater Scottsdale
Mary Lundell, JPMorgan Chase Bank
Sandy Schenkat

Jeff Sundheimer, JPMorgan Chase Bank

CALL TO ORDER

Chair Klapp called the meeting to order at 3:58 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

1. Approval of Minutes, Regular Meeting, June 26, 2017

COUNCILWOMAN LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE JUNE 26, 2017 REGULAR MEETING AS PRESENTED. 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 Parks and Recreation Commission Sunset Review

Cathleen Davis, Senior Auditor, said that the Commission's purpose is to advise the City Council on the acquisition and disposal of land, structures and facilities. It is also to advise, counsel and aid the Council and the City Manager in the operation, use, care and maintenance of park or recreation centers. The Audit Committee is to evaluate whether the board or commission being reviewed is serving its intended purpose, whether its 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.

Chair Klapp invited comments, but there were none.

COUNCILMEMBER KORTE MOVED TO RECOMMEND TO COUNCIL TO CONTINUE THE ARKS AND RECREATION COMMISSION. 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 Audit No. 1709, McDowell Mountain Golf Course Lease

Ms. Davis stated that the audit was performed to evaluate compliance with the terms and effectiveness of controls for the City's golf course lease with White Buffalo Golf, LLC. In December 1996, the City entered into a concession agreement for a private company to develop and operate an 18-hole golf course and clubhouse facility, now known as the McDowell Mountain Golf Club. In April 2011, White Buffalo Golf assumed the rights and responsibilities for golf course operations under the multi-year Concession Agreement. In July 2011, the City Council approved a separate contract with White Buffalo Golf for \$1.2 million of golf course improvements.

The Bureau of Reclamation (BOR) approved using \$500,000 from the Basin Management Fund (BMF) for these improvements. White Buffalo Golf paid \$200,000 and loaned the remaining \$500,000, which it is recovering through approved BMF surcharge fees. In June 2012, the Council approved a Concession Agreement

amendment providing for a clubhouse expansion and renovation project estimated at \$2.3 million. White Buffalo Golf contributed \$353,000 and loaned another \$500,000 to the project, which will be recovered through future BMF fees. Council authorized up to \$1.5 million in Municipal Property Corporation bonds for the remainder.

The audit found that while current contract administrators have appropriately managed the contract, past requirements have not been documented. The contract administrators generally maintain detailed documentation, such as the contract-related agreements and amendments; correspondence with White Buffalo Golf staff; financial reports, reconciliations, and payment information; and related correspondence with the BOR. However, supporting documentation was not available for certain in-kind improvements made by White Buffalo Golf. As seen in the management action plan, Public Works generally agreed with the audit recommendations.

Councilwoman Littlefield said her main concern is the lack of documentation showing that the contract had been fulfilled and the work had been done. If the City is ever audited from an external point of view, then the documentation needs to be available to show that the City received the value as per the contract. The proof of the value needs to be in the files and needs to be done at the time the work is being completed. Ms. Walker stated that the contract administrators had good records on everything else. And, while it is possible that at this time it could be difficult to obtain the documentation, the auditors still recommended that they check for it. Chair Klapp commented that this was five years ago and the report reflects that more recently staff recognized they need to better document contract administration. At least there is something on file from 2012, though in retrospect, it probably wasn't enough. Councilmember Korte stated that she also views this positively, as past audits of Public Works have revealed some anomalies. The willingness for the department to work with the auditors and make necessary changes is reflected in this one.

4. Discussion and Possible Direction to Staff Regarding Audit No. 1710 Capital Projects: Project Management and Allocated Charges

Kyla Anderson, Senior Auditor, explained that this audit assessed the methodology for and accuracy of charges assessed to capital projects for overhead costs. The auditors used the term 'overhead' broadly to include Capital Project Management's (CPM) direct payroll charges, its departmental allocation and the CIP allocation that is largely for the Treasurer's Office staff. Last year, the City spent more than \$118 million on capital projects, of which \$53 million was managed by the CPM group. Projects managed by the CPM group are charged certain CPM staff's direct payroll plus a CPM allocation for other departmental costs. All capital projects are charged a CIP allocation for some non-CPM staff that provides support to capital projects. Stormwater projects also receive a stormwater allocation. Charges totaled approximately \$6.1 to \$6.7 million per year.

The audit found that staffing levels and performance goals should be reevaluated and payroll charge detail provided to client departments. Although CIP expenditures have decreased by almost half since Fiscal Year 2010/11, the number of budgeted positions in CPM has not decreased comparatively. CPM has not set a formal goal for the percentage of time that project managers are expected to spend directly on projects. CPM should show the full effect of the project management costs by including direct charge salaries in its performance measures, rather than just the allocated departmental

costs. Client departments are not provided with detailed support for direct hours and payroll costs charged to their individual projects to improve accountability.

Capital project overhead could be more equitably assessed and accurately budgeted. Calculating or estimating the CPM Allocation on an annual basis, rather than monthly, could be more equitable to individual projects. The calculated annual amounts could then be charged to projects evenly on a monthly or quarterly basis with year-end true-up for any significant changes, such as project cancellation.

The CIP Allocation charges are based on budgeted salaries and not updated as staffing changes occur. Auditors calculated that vacancy savings of \$50,000 in FY 2015/16 and \$31,000 in FY 2016/17 were not adjusted out of the CIP charge. Also, because the CIP Allocation is not based on actual staff hours, the charges may not be representative of support that a particular project required. For example, the FY 16/17 Preserve land purchase of \$35 million was charged \$128,000, which was about 12 percent of that year's total CIP Allocation. Actual charges to individual projects varied widely, from less than 1 percent to more than 50 percent during FY 16/17, because of project timing throughout the year. Therefore, the practice of budgeting each type of charge at 4 percent may not provide sufficient budget to cover actual costs so that departments can plan for the impact on their funding sources.

Councilmember Korte questioned the management response in the report, citing that the CPM department and the City Treasurer's Office "generally agreed" with the audit recommendations. She inquired which items were not in agreement. Dan Worth, Public Works Director, stated that they all said agree. Chair Klapp recalled that there was one disagreement from the Treasurer's Office regarding the annual versus quarterly reporting. Ms. Walker confirmed that this was why the report used the phrase "generally agreed." The Treasurer's Office had a management response of agree, but had an explanation as to why they thought there would be challenges with reporting on an annualized basis. She noted that the recommendation was to evaluate the amounts once a year but then charge that out on a monthly or quarterly basis. Mr. Worth commented that CPM understood that explanation and agreed with that recommendation. In response to Chair Klapp's inquiry, Mr. Nichols agreed that an annual evaluation makes sense.

Councilwoman Littlefield noted that the report indicates that if the department asks for their overhead numbers, then they are given those numbers. She recommended that the costs should be provided to any partner department. If they are not used to asking or do not know that they have an overhead to ask about, they may not be aware of it. Chair Klapp agreed, quoting from the report, "Without payroll detail, the client departments are unaware of the effect overtime may have on budget costs." So if the information is share more readily, we may be able to find some efficiencies that we are not finding right now. Ms. Walker noted that the comment that the information would be provided upon request was also part of why the management response was summarized as "generally agree." The partner departments should be getting the list of who has worked on their projects and the associated costs in the same way that the city expects external contractors to provide that information. Committee members agreed, and Chair Klapp summarized that the more proactive rather than reactive the information is, the better the budgets can be effectively managed.

5. Discussion and Possible Direction to Staff Regarding 2nd Quarter CY 2017 Taxpayer Problem Resolution Officer Report

Ms. Walker reported that the administration and collection of transaction privilege tax has transitioned to the state Department of Revenue. Fewer surveys are being sent out, which is why the current quarter has lower numbers than in past quarters. The final tax audits have been completed and no surveys were received. Starting next quarter, this report should just be an information item that does not require discussion.

6. Discussion and Possible Direction to Staff Regarding Status of FY 2017/18 Audit Plan

Ms. Walker said that the Audit department is on track for what has been planned to this point in the fiscal year. It was originally planned that the November meeting would include the Scottsdale Arts contract audit and the external financial audit; however, based on timing, the Scottsdale Arts contract audit will be presented in January 2018.

7. Discussion and Possible Direction to Staff Regarding Agenda Items for Next Audit Committee Meeting

Ms. Walker noted that the October 2017 meeting has been cancelled and there will not be a meeting in December 2017. The next meeting is scheduled for Monday, November 13, 2017. There is a Council meeting that day as well so the meeting will be held in the City Attorney conference room instead of the usual Kiva conference room. The first meeting of calendar year 2018 is planned for Monday, January 22, 2018.

Public Comment

Sandy Schenkat requested to speak and expressed compliments to Sharron Walker for her excellent work.

Adjournment

The meeting adjourned at 4:23 p.m.

SUBMITTED BY:

eScribers, LLC