CITY OF SANTA MONICA

AUDIT SUBCOMMITTEE MEETING

MINUTES

THURSDAY, SEPTEMBER 5, 2019

A special meeting of the Santa Monica Audit Subcommittee was called to order by Chair Morena, at 6:07 p.m., on Thursday, September 5, 2019, at 333 Olympic Drive, 2nd Floor (Plaza Level), Santa Monica, CA 90401

Roll Call: Present: Committee Member Elizabeth Van Denburgh
                                      Committee Member Winterer
                                      Committee Member Natalya Zernitskaya
                                      Vice Chair Sue Himmelrich
                                      Chair Greg Morena

               Also Present: Director of Finance Gigi Decavalles-Hughes
                                      City Attorney Lane Dilg
                                      City Clerk Denise Anderson-Warren

CONVENE   On order of Chair, the Audit Subcommittee convened at 6:07 p.m., with all members present.

PUBLIC INPUT   **2. Public Comment (Public comment is permitted on items not on the agenda that are within the subject matter jurisdiction of the body),** was presented.

                          There were no members of the public present to speak.

OATH OF OFFICE   **3. Swearing in of Elizabeth Van Denburgh**, was presented.

                          The City Clerk administered the Oath of Office to Elizabeth Van Denburgh

MINUTES   **4. Approval of the Minutes for the January 15, 2019 and May 30, 2019 Audit Subcommittee Meetings**, was presented.

                          There were no members of the public present to speak.

                          Motion by Vice Chair Himmelrich, seconded by Committee Member Winterer, to approve the minutes as presented. The motion was unanimously approved by voice vote, with all members present.

INTERNAL AUDIT   **5. Presentation of Reports,** was presented.
REPORTS
CERP REVIEW   a. **CERP Review** (Moss Adams and Joseph Cervetello, Chief Information Officer)

There were no members of the public present to speak.

The Computer Equipment Replacement (CERP) fund is designed to ensure that computer equipment and technology meets the new standards and is up to date. However, since this fund was originally established, the technology landscape has changed, and the city's technology needs have also changed as well. Until about 2016 the funding levels were increasing, but in the past couple years the funding levels have been decreasing, and ISD forecast that the fund in its current configuration will end up experiencing a shortfall. That raises the question of how the efficiencies and effectiveness can be increased to make sure that this fund is sustainable over time.

It was reported: the city does not have a centralized governance structure; ISD is a central services department, but funding for technology comes from a variety of places, which can be confusing for departments; the current funding structure is not recovering all of the direct cost; and, IT tech team is understaffed when compared to other agencies.

The recommendation is to: focus on creating a centralized citywide IT governance committee, giving the committee authority to make decisions around technology purchases and technology policies; also centralize IT funding; transition ISD to an internal service fund structure department; establish a 100 percent cost recovery, and to establish reserve funds for Enterprise software; and, provide a few more tech support positions to make sure that the proper level of service can be provided for all services including CERP.

Questions asked and answered included: Did Moss Adams look at telecommunications at all; do we need to worry about telecommunications; thoughts about transferring IT to an internal services fund; why are these costs being excluded from full cost recovery; looking at the IT discussion, is it out of scope with the audit; is the business analyst being addressed; is the recommendation to add staff as opposed to improving systems, or is staffing out of line; how many as-needed workers were converted to full-time employees over a five-year period; what are the other pieces of equipment covered under IT (are they responsible for); other than desktops and laptops, are departments able to choose their own proprietary softwares; how many of the 260 systems citywide does IT think they could reduce; what is the proprietary data center, and what data is in there; where will that information live until it goes to the cloud; which recommendation would be most helpful for the department; is the internal fund a good idea; would it make a difference to only allow either a MAC or Windows system instead of supporting two operating systems; why was the past two years fund expeditiously higher, and do you see that stabilizing; are the $2.5 million Microsoft approval on the upcoming Council agenda, is that for the cloud, and what is that for; what does tailored per-unit allocation mean; the two positions being recommended, are they currently positions that are open or are they something that would have to be created; are there

advantages to leasing equipment with the fast changes in technology; is there certainty that other recommendations could improve the service delivery before deciding on hiring two full time employees (FTE's); the cost recovery system we're moving to would have software subscription costs built into it; is it becoming operational cost on an on-going basis; isn't it with the SAS as a service, is it really becoming operating cost, and should we be rethinking that concept; are exercises being put in place to control departments purchasing outside systems; is there any hope that the strangle hold on technology will be alleviated for less expensive systems in the future; and, do you have a Strategic Technology Plan.

Considerable discussion ensued on topics including, but not limited to, go after the number of Enterprise systems and reduce them down as much as possible.

Motion by Vice Chair Himmelrich, seconded by Committee member Zernitskaya, to receive and file the report. The motion was unanimously approved by voice vote, with all members present.

PRINT SHOP COST ANALYSIS

b. **Print Shop Cost Analysis** (Moss Adams and Denise Anderson-Warren, City Clerk)

There were no members of the public present to speak.

As a result of the previous Print Shop study, the Audit Committee ask Moss Adams to go back and look at the fully burden staffing cost compared to the private sector. The auditor assessed the cost effectiveness of the Print Shop on a selected number of services provided. They compared the 10 most common services provided by the Print Shop, including fully burdened staff cost. It was noted: that this is only a sample size of what the Print Shop does, and because all print jobs do not flow through the Print Shop, and some departments outsource print services, the auditor was not able to determine exactly how much the city spends on printing; the costs that could be determined were based on specific jobs that the Print Shop charges back, plus the staffing cost that is allocated in the annual cost allocation process.

Two scenario analysis were conducted for comparison: 1) current cost and 2) cost if the Print Shop were to move to an offsite location where the Print Shop would have to pay rent. Some of the assumptions included, per-job time and Supervisor time equally between jobs; under this model the Print shop would operate as an internal service fund; and as an internal fund, the Print Shop is located on city property and does not pay rent.

Under the current model, the City is less than the private vendors by 2 percent on average, but the prices vary amongst vendors. So, for the 10 services, four were less expensive than the private sector, but again, the pricing varied from vendor to vendor. One thing also to note, currently the Print Shop is located at the City Yard but may have to move as soon as

2021. The auditor reached out Economic Development to identify commercial/industrial space in Santa Monica that might be available, if the Print Shop were to move to private property. Under scenario #2, it was determined the Print Shop would have to pay market rate ($3.75/sq. ft) for approximately 4,000 square feet. Discussions included during this process, if the Print Shop was able to move and have more space, then they could do more jobs that are currently being outsourced that might be cheaper or could benefit the city. Conclusion: if the Print Shop were to be on private property, the city services would cost about 27% more than vendor quoted cost. The City's costs were less than external vendors for three of the ten jobs compared. (Noted: The City could likely negotiate lower rates with vendors based on volume).

Recommendation: the Print Shop should issue an RFQ (request for quotes), with all of the policy and legal requirements that are important to the city to get a preselected list of vendors, and that would provide transparency to the process, visibility for the Print Shop and the City as a whole to everything that is going out and not being done in-house, and then a better sense of cost; once RFQ responses are received, the relevant gathered information including moving cost, potential rent costs, and vendor costs will enable the City to assess the ongoing cost effectiveness of operating the Print Shop, and determine whether to continue, decommission, or downsize the Print Shop to focus on those services that are cheaper than the private sector; and, it would be done based on cost-effectiveness, what space is available, as well as what the city's priorities are and those policy priorities.

Questions asked and answered included: Were any of the vendors you spoke to union printers; are there any bars to seek union Print shops; with the suggestion to eliminate the Print Shop, is there a way through this process to consider making sure that the employees are moved into other city positions or is that outside of the auditors purview; how many people are in the division, and was the mailroom separated out as part of the existing square footage; even if the Print shop goes away, where will the mailroom move to; if were going to limit what you are offering, as a customer service, to the things you do the most, how much space would be required, would it be substantially less; what does confidential printing include and that process, and are there any alternatives to that; and, are there any recommendations that the City Clerk opposes; how do you compare the weight for each job when you don't have volume; and, what is the number for contractual services expenditure in the report.

Considerable discussion ensued on topics including, but not limited to: for best business practices, it makes sense to move forward with the RFQ; impacts decommissioning would affect those departments who use the Print Shop; and, auditing outside vendors for sustainability requirements.

Committee member Winterer, seconded by Vice Chair Himmelrich, to receive and file the report. The motion was unanimously approved by voice vote, with all members present.

AUDIT COMMITTEE RESOLUTION	**6. Review of proposed modifications to the Resolution Establishing an Audit Subcommittee for the City of Santa Monica,** was presented.

There were no members of the public present to speak.

Motion by Vice Chair Himmelrich, seconded by Committee Member Winterer, to approve the resolution as presented. The motion was unanimously approved by voice vote, with all members present.

INTERNAL AUDIT UPDATE

7. Internal Audit Update (Moss Adams), was presented.

There were no members of the public present to speak.

It was reported that there are six projects: Fire Administration and Fleet reports were discussed at the last meeting; this meeting Print Shop Efficiency Study and IT ISF Review; two active projects include Parking Operating Contract Review will start this month and Grants Management Internal Controls Testing started last year and it will be restarted February through April.

Questions asked and answered included: are we redoing our Grants Management approach and is this different from CCS; is Construction Audit is under Public Works, not under Real Estate portfolio; is there any room to look at how the new website rollout is progressing; do we need a new risk assessment, and are there any departments that have not been audited yet.

The Finance Director proposed a couple changes to the recommended Internal Audit Plan by pushing the HR Performance Study out to January 2020 and moving the Construction Audit to begin immediately;

Motion by Committee Member Zernitskaya, seconded by Committee Member Van Denburgh, to receive and file the report, as amended. The motion was unanimously approved by voice vote, with all members present.

AUDIT STATUS

8. Audit Findings Status Update and Review of Recommended Approach to Monitor and Validate Internal Audit Findings (Gigi Decavalles-Hughes, Director of Finance), was presented.

There were no members of the public present to speak.

It was reported that there are 155 findings and 215 associated recommendations. About 61% are on-going or completed. It is expected that Parking Permit Citations and Billing Accounts Receivable to move

down to 0% in February, when the expected remaining part of the ERP module. Fire Administration is an area that a lot of the recommendations were already implemented; Parking Permitted Citation contract is not the same as the parking being looked at in the future; in the next few months, Parking operations contract with the residential permits will be reviewed; Labor negotiations; and, Print Shop and Fleet to look at separately.

Here is the schedule staff proposes the Audit Subcommittee review and confirm findings validation for report in phases.

Meeting	Report Findings/Validation Review
2019 Q4	Ambulance Contract Billing Human Resources Benefits Billing Cash Handling
2020 Q1	Parking Contract Billing and Accounts Receivable Compensation and Staffing
2020 Q2	Purchasing Card Internal Controls Testing Big Blue Bus Overtime Fire Department Administrative Review
2020 Q3	Fleet Efficiency Study and Fleet Utilization Study
2020 Q4	CERP Program Fund Review Print Shop Efficiency Studies (Jan. 10, 2019 and July 31, 2019)

For future reports (those completed after the September 2019 Audit Subcommittee meeting), final reports will include recommendations for validation at the time of the presentation, with Audit Subcommittee confirmation at the next scheduled meeting. Staff will work with the Audit Subcommittee and Departments to identify when it makes sense for Department staff to attend meetings for the purpose of discussing validation issues. Staff would also like to propose a one-year review.

Questions asked and answer included: Is one of these an audit where they found the $160,000 in missing parking tickets; for parking validation, as we get closer to 0% is that when we will review; on billing and AR, the 79%, is there a reason that seems to be taking more time than others; do you believe all of these things like cash handling will be at 0%; when do you call uncle and say we don't have all of the recommendations done and it's been three year, do you ever abandon a recommendation; could there be a sync up of either using the word findings or observations; could this report be made accessible in a different format online, because it is too hard to read as a pdf; when you're talking about proposing these things for validation, what do mean by that; and, what is going to be used for the CERP review.

Committee Member Zernitskaya, seconded by Vice Chair Himmelrich, to approve the recommended action. The motion was unanimously approved by voice vote, with all members present.

INTERVIEW EXTERNAL AUDITORS

9. Selection of Audit Subcommittee Members to attend interview with external auditors, was presented.

There were no members of the public present to speak.

The Chair opened the floor to nominations.

Chair Morena and Committee Member Van Denburgh volunteered and were selected to attend interview with external auditors.
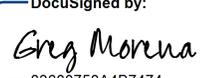
ADJOURNMENT

On order of the Chair, the Santa Monica Audit Subcommittee meeting was adjourned at 8:34 p.m.

ATTEST:

APPROVED:

Denise Anderson-Warren
City Clerk

Greg Morena
Chair

7

September 5, 2019