

CITY OF SANTA MONICA

AUDIT SUBCOMMITTEE MEETING MINUTES

TUESDAY, APRIL 17, 2018

A special meeting of the Santa Monica Audit Subcommittee was called to order by Chair Himmelrich, at 6:09 p.m., on Tuesday, April 17, 2018, at Ken Edwards Center, 1527 Fourth Street, Santa Monica, CA 90401.

Roll Call: Present: Committee Member Greg Morena
Committee Member Pam O'Connor (*Arrived at 7:10 p.m.*)
Committee Member Elizabeth Van Denburgh
Vice Chair Tony Vazquez
Chair Sue Himmelrich

Also Present: Director of Finance Gigi Decavalles
City Attorney Lane Dilg
Acting Secretary Maria Dacanay

CONVENE On order of Chair, the Audit Subcommittee convened at 6:09 p.m. with Committee Member O'Connor absent.

MINUTES 2. **Approval of the Minutes for the January 16, 2018 and February 28, 2018 Audit Subcommittee Meetings**, were presented.

There were no members of the public present to speak on this item.

Motion by Vice-Chair Vazquez, seconded by Committee Member Morena, to approve the minutes as presented. The motion was approved by voice vote, with Committee Member O'Connor absent.

JOINT MEETING A special joint meeting with the Compensation Study Advisory Committee was called to order by Chair Himmelrich at 6:10 p.m., with all members of the Advisory Committee present, and all members of the Audit Subcommittee present except Committee Member O'Connor.

COMPENSATION STUDY 3. **Compensation Study Report**
a. **Receive and Approve the Compensation Study Report** was presented by Moss Adams, LLP.
b. **Review and Discuss the City's Implementation Plan** was presented by Gigi Decavalles- Hughes, Director of Finance.

Member of the public Tricia Crane spoke on the item.

The Auditor presented the Final Compensation Study based on recommendations from the last meeting, and noted new Recommendation number 7 to regularly assess the City Charter, Municipal Code, and Civil

Service rules to ensure they are aligned with contemporary personnel practices and meet the evolving business needs of the City.

Discussion ensued on topics including, but not limited to: employee productivity, efficiency and benchmarking; establishing a separate Committee to take on the issue on employee pension costs; and concerns with the lack of strong financial recommendations to some observations.

Members from both Committees asked the Auditor and staff questions including, but not limited to: whether a study can be conducted to show the distribution by race and gender at a later phase; how recommendations will be implemented and how status reports will be provided; why Observation and Recommendation number 11 no longer discussed comparing productivity with peers, and if it could reference individual employees' efficiencies and effectiveness; and whether employees can contribute more to the employer's portion of pensions.

*Committee Member
O'Connor arrived at
7:10 p.m.*

The Auditor and staff answered the Committees' questions and will revised Recommendation number 11 by adding back the reference comparing productivity to peers, including a caveat that a Service Level Study was not conducted, and emphasizing individual employees' efficiencies and effectiveness.

Motion by Committee Member Morena, seconded by Vice-Chair Vazquez, to receive and approve the Compensation Study Report, as noted by the Committees, and forward it to the City Council. The motion was approved by the Audit Subcommittee with the following roll call vote:

- AYES: Committee Members Morena, O'Connor, Van Denburgh, Vice-Chair Vazquez, Chair Himmelrich
- NOES: None
- ABSENT: None

Members from both Committees asked questions regarding the Implementation Plan, including but not limited to: whether the City can establish its own investment plan as other municipalities in the National League of Cities have done to assist with increasing pension costs; the process of conducting reclassification/compensation studies and whether studies can be publicly accessible; the process and cost of establishing a Compensation Philosophy; whether City staff is provided with total compensation statements of salaries/benefits; whether the City can alter the terms and conditions of employees' employment in the event of a fiscal emergency; whether the City can stagger contract negotiations; why Recommendation number 4 lacks a timeline; and whether staffing levels can be evaluated at a later time.

The Committee commented on the following recommendations of the Implementation Plan:

- 1) Under Responsibility, make the Office of Communications another responsible Department
 - 5) Under Responsibility, make Finance another responsible Department
 - 8) Under Resource, consider using external resources
 - 10) Under Potential Action Steps, include evaluating capital investments
- Additionally, the Committee requested that financial impacts should be studied before decisions are made, and Audit Subcommittee Member Van Denburgh and Advisory Committee Member Mojtabai requested that their written comments be forwarded to the City Council for consideration.

Staff answered the Committees’ questions and will: include the Committees’ recommendation to provide City staff with total compensation statements; revise Recommendation number 4 to include numeric targets and a specific timeline; and forward Member Van Denburgh and Mojtabai’s comments to the City Council.

Motion by Committee Member Morena, seconded by Vice-Chair Vazquez, to receive and file the City’s Implementation Plan, as noted by the Committees, and to forward it to the City Council. The motion was approved by the Audit Subcommittee with the following roll call vote:

- AYES: Committee Members Morena, O’Connor, Van Denburgh, Vice-Chair Vazquez, Chair Himmelrich
- NOES: None
- ABSENT: None

Before adjourning the final meeting with the Advisory Committee, the Advisory Committee Members were thanked for their service. The Advisory Committee expressed their desire to continue serving in the Committee and requested that the message be passed onto the City Council, should the Council require their services again.

**ADJOURNMENT OF
JOINT MEETING**

On order of the Chair, the special joint meeting with the Advisory Committee adjourned at 8:28 p.m.

INTERNAL AUDIT

4. **Internal Audit Status Report** was presented by Moss Adams, LLP.

The Auditor provided a status report on activities from November 2017 – April 2018. The Auditor reported that reviews on: Accounts Receivable, Compensation, and Supervisor Training was completed; Policies and Procedure Validation is on-going; and Purchase-Card Controls Testing, Fleet Efficiency Study and Big Blue Bus Overtime Study have been initiated and status reports will be provided at the next meeting.

Motion by Chair Himmelrich, seconded by Vice-Chair Vazquez, to receive and file this information. The motion was approved by voice vote, with all members present.

**INTERNAL AUDIT ON
BILLING & ACCOUNTS
RECEIVABLE**

5. Receive Internal Audit Report on Billing and Accounts Receivable
was presented by Moss Adams, LLP.

The Auditor reported that the City: assesses 330 fees/charges; averages to \$299M in billings; and uses 17 different systems to track billings/accounts receivable (AR). In terms of System and User Access, standalone billing systems and manual processes are not tied to the City's current financial system, and access to the various systems require better controls. Regarding Managing/Adjusting Fees, it was determined that not all fees are approved by the City Council, some fees are outdated and difficult to update if specified in the Municipal Code, not all fees are programed in billing systems, and require increased security controls to adjust/override fees. In terms of Monitoring Billing/AR, the Auditor identified that centralized monitoring to ensure proper assignment of fees, a tracking system for waived fees/permits, and better accounting of outstanding balances are needed. Regarding Written Guidance, System Administration and Audit Trails, it was determined that Departments' various processes are not documented in policies/procedures/ some billing systems/process do not have an audit trail, and segregation of billing and system administration duties is needed for increased control. Department specific recommendations consisted of: increasing oversight of the Parking Division's parking operating contract; identifying improved practices on billing/revenue collection for the Fleet Division which will be reported at the next meeting; connecting Planning & Community Development's permitting system with the City's financial system; and clarifying the roles/responsibilities of Community & Cultural Services staff to monitor outstanding accounts.

The Committee asked questions, including but not limited to: the possibility of having City Departments merge into one system to track billing/AR and whether this can be done while the City implements its new Enterprise Resource Planning (ERP) system; which systems are most problematic due to the large number of transactions; how much revenue is not collected/written-off, and the cost and process of collecting debt/fines; and whether City staff tasked with billings report to the Finance Department. The Auditor and staff answered the Committee's questions.

Motion by Committee Member Morena, seconded by Chair Himmelrich, to receive and file this information. The motion was approved by voice vote, with all members present.

**INTERNAL AUDIT
WORK PLAN**

6. FY 18-19 Internal Audit Work Plan was presented by Moss Adams, LLP

The Auditor identified seven medium to high risks in terms of Asset Management, Human Capital, Internal Controls, Management, Planning, Policies & Procedures, and Technology. Internal Control Testing is underway for Purchasing & Accounts Payable (AP) regarding purchase cards, and Policies & Procedures. Additionally, the Auditor is working on projects with eight Departments regarding overtime, cash handling, AR,

administration/operations, third party contracts, and employee benefits. Potential audits for the next fiscal year include: Grants Management, the Parking Operation Contract, the Computer Equipment Replacement Program, Print Shop Efficiency, and Fire Administration Operations.

The Committee asked questions, including but not limited to: when Departments that have not been audited will undergo this process; monitoring public housing grants and covenants/deed restrictions for compliance and adding this to the list of Potential Internal Audit Projects; the process for making/receiving ethical violations; if the next report can rank the Risk Assessments and Internal Audit Consideration; and the process to following on projects that have been implemented.

*Committee Member
O'Connor left at 9:55 p.m.*

The Auditor and staff answered the Committee's questions. The Auditor will add a review of Housing grants and loans to the audit program, although not prioritize it before any current projects listed on the audit program. Staff will: report back on Housing's monitoring program on loans that the City makes related to Housing, and that all funding spent is in compliance. Staff will also look into improving and clarifying the City's Code of Ethics and fraud reporting process.

Motion by Chair Himmelrich, seconded by Committee Member Morena, to receive and file this information, and direct the Auditor to proceed with the first five Audit Projects. The motion was approved by voice vote, with Committee Member O'Connor absent.

**INTERNAL CONTROLS
REVIEW REPORT**

7. Internal Controls Review Progress Report was presented by Gigi Decavalles-Hughes, Director of Finance

Staff reported that: 29 out of 41 recommendations were implemented; the AR Audit was recently completed; completion of a Cash Handling Administrative Instruction is expected to be complete in August; and staff plans to begin conducting trainings and spot audits.

Motion by Chair Himmelrich, seconded by Committee Member Morena, to receive and file this information. The motion was approved by voice vote, with Committee Member O'Connor absent.

ADJOURNMENT

On order of the Chair, the Santa Monica Audit Subcommittee meeting was adjourned at 10:02 p.m. with Committee Member O'Connor absent.

ATTEST:

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Maria Dacanay
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Maria Dacanay
Acting Secretary

APPROVED:

DocuSigned by:
Sue Himmelrich
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Sue Himmelrich
Chair