

CITY OF SANTA MONICA

AUDIT SUBCOMMITTEE SPECIAL MEETING

MINUTES

TUESDAY, AUGUST 30, 2016

A special meeting of the Santa Monica Audit Subcommittee was called to order by Chair Patel, at 7:05 p.m., on Tuesday, August 30, 2016, at Ken Edwards Center, 1527 Fourth Street, Santa Monica, CA 90401

Roll Call: Present: Committee Member Frances Ellington
Vice Chair Sue Himmelrich
Committee Member Pam O'Connor (*arrived at 7:31 p.m.*)
Committee Member Tony Vazquez
Chair Member Nimish Patel

Also Present: Director of Finance Gigi Decavalles
City Attorney Marsha Moutrie
City Clerk Denise Anderson-Warren

CONVENE On order of Chair, the Audit Subcommittee convened at 7:02 p.m., with all member present, except Committee Member O'Connor.

PUBLIC INPUT There were no members of the public present to speak on any of the items being presented.

MINUTES 3. Approval of Minutes for the Audit Subcommittee April 19, 2016 Meeting, was presented.

Chair Patel brought up a conversation he recalled having with the outside auditors regarding the issues that arose in the City of Placentia, and expressed concerns that the discussion was not reflected in the minutes.

On order of the Chair, this item was continued to the next meeting to allow the necessary amendments be made to the minutes.

ROLES AND RESPONSIBILITIES 4. Clarification of the Roles and Responsibilities of the Audit Subcommittee of the Santa Monica City Council (Subcommittee Report), was presented.

Questions were asked and answered of staff about communication with the Auditors, and if the Committee Members should be talking to the Auditors at and away from the meetings, and if it is okay to reach out or should most communication happen in public; questions about this body having a Closed Session exemption; as issues related to fraud, who should people talk to if they have something to report; and does the City Attorney's confidentiality extend to all Committee Members.

Vice Chair Himmelrich distributed a matrix that she thought would be useful for the Subcommittee, and wanted to know if this could be tabled or combined for the Subcommittee to use.

Staff responded that the routineness may cut into staff completing the work projects.

On order of the Chair, the report and information was received and filed by all members, with Committee Member O'Connor absent.

BILLING REVIEWS

*(Committee Member
O'Connor arrived at
7:31 p.m.)*

5. Receive an Update on Ambulance Billing and Benefits Billing Reviews (presented by Mark Steranka, Partner, Moss Adams LLP), was presented.

The Auditor provided preliminary reports on Ambulance billing, HR Benefits billing review, and cash handling with the expectation to provide a full report when the subcommittee meets in October.

The objective was to review the billing practices of the ambulance billing contractor, to assess the accuracy of their billing and the completeness of it, as well as the revenue collection activities, and to also provide some feedback about the current project that Finance has been undertaking in terms of providing a reconciliation on the revenue side. After doing interviews and in-depth testing, areas that were identified at this point that are opportunities for improvement included, but not limited to:

- On-going Monitoring
- Record Keeping
- Billing - Rates that were not applied correctly
- Revenue collection – increase the speed that the city is getting the revenue, and reconciliation issues
- Accounting issues – inconsistent practices
- Modifying the split revenue with the city

Questions were asked and satisfactory answers given regarding billing and the revenue split (i.e. Medicare vs. Medical); does it cost more to implement these systems than we receive back in revenue; and, is there a decline in service with outside contractors (Fire Chief explained the challenges of retaining quality people, but can be addressed in the Request for Proposal).

The objective for review of the HR Benefits billing process, to make process improvement recommendations, and also do some time and point reconciliation as opposed to just looking at changes that are happening month to month. The areas that were identified were:

- Benefits (the city offers a variety of benefit plans primarily because there are so many bargaining units) The entire process is manual, but in the process of becoming automated
- Tracking employees (when they leave, are hired, etc.)
- Cleaning up some of the data during the transition before going to

- an automated system
- Few discrepancies considering the system is manual

Questions were asked and answered about tracking attendance and leave of absence issues; is there a system or potential outside company to keep track of all the various leaves. Specifically if people are on leave beyond the time, when is the end of the leave, and who is keeping track of the time, and if there is any traceable way to terminate benefits; deceased retired employees who continue to receive benefits; and if deceased and on the payroll is that traceable.

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

INTERNAL AUDIT WORK PLAN

6. Receive an Update on Internal Audit Work Plan (presented by Mark Steranka, Partner, Moss Adams LLP), was presented.

A status report was given on the following projects :

- Ambulance Billing Review
- Benefits Billing and Reconciliation Review
- Cash Handling Review
- Enterprise Risk Assessment
- Policies and Procedures Validations
- Supervisor Training

Mr. Steranka reported that onsite testing around the city has been done for the Cash Handling review, and they will generate a report for the subcommittee and report back in October, and provide a confidential memo to department heads and briefings where there are potential cash security issues; the Enterprise Risk Assessment is just beginning and will be given to City Council, Department Heads, and all other Managers through interviews and online surveys citywide (governance, retention in the city, employee succession, and types of risk); Policies and Procedures Validations will address the findings and gap in discrepancies in policies and procedures; and there is a Fraud Training scheduled for September 15th for supervisors at a Lunchtime Learning session at the SMI Training room.

Questions were asked regarding timing of the final results and what he subcommittee can expect to receive at their October meeting. The auditor responded that they plan to present the Risk Assessment report including the types of risk levels and the trajectory. The expectation is to present the complete report at the January 2017 meeting.

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

**INTERNAL CONTROLS
REVIEW PROGRESS**

7. Receive an Update on Internal Controls Review Progress (presented by Gigi Decavalles-Hughes, Director of Finance), was presented.

Staff is giving themselves until June 2017 to try and complete the majority of the items listed. The Finance Director reported the following:

- The ERP system is scheduled to partially begin in July 2017, with HR and Payroll beginning in the Fall of 2017.
- The overall progress is 23 of the 41 items are completed, and six are near completion
- Monthly Bank Reconciliation Process Review – completed
- Ambulance Provider Audit – nearing completion
- Cash Handling Review – underway
- Accounts Receivable audits/training – underway (staff)
- Accounts Receivable Review – Spring 2017
- Have completed about 239 policies and procedures in the past 18 months (There is one person who is working with grants citywide; working on a Supervisor Handbook advising supervisors of their responsibilities, and completed Purchase Card procedures and spot card audits)
- Continuing electronic timekeeping expansion (have hit some issues with firewall issues)

Recommendations include:

- Accounts Payable Procedures
- Secure handling of parking permits
- Grants Administrative Instruction
- Overtime monitoring

Questions were asked and answered of staff regarding who should be responsible for purchasing card use and approval. Staff's position has not changed that the department Directors and Managers should be responsible for monitoring/approval of use instead of Finance. The review process is pretty strenuous at this point in Finance. Also the question about how many purchasing cards have been issued. There are 177 purchase cards issued.

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

**POLICIES AND
PROCEDURES**

8. Review Policies and Procedures for Internal Controls (presented by Gigi Decavalles-Hughes, Director of Finance), was presented.

- a) Wire Transfer - The city makes approximately 440 electronic payments per year, through an online system with Wells Fargo; 420 go to routine or preapproved accounts; 20 are miscellaneous items where wire instructions are required.

Internal Controls – Is a dual custody security; separate initiator/approver; RSA token required; complete separation of

initiator and approver access; Mostly preset templates; documentation required; (very rare) manual request; and Accounting reconciles bank statements.

- b) Purchasing Cards – 177 Cards issued; \$2.1 million per year; rebates provided; Non-routine, small-value, government purpose; cannot be used for routine or split purchases; automatic rejections; Electronic submittal and approval system; Instructions, signed agreement, and, violation program.

Internal Controls – Review and Approval by Manager/Department Head; Original receipts are required; Additional review layer by AP and Purchasing; Spot audits; annual review; and termination of cards.

Questions were asked and answered regarding if it is a negative thing to have all monies going through one bank of whether city should diversify; What is considered a routine purchase; is there a name on the credit card; can people use a purchase card for personal use and then reimburse the city; Have there been any problems that have come up during spot audits.

Motion by Committee Member O'Connor, seconded by Vice Chair Himmelrich, to receive and file this report. The motion was unanimously approved by voice vote, with all members present.

**AUDIT SUBCOMMITTEE
RESOLUTION**

9. Adoption of Resolution No. 2 (ASC) entitled, “RESOLUTION OF THE AUDIT COMMITTEE OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA ESTABLISHING REGULAR MEETING DATES,” was presented.

Motion by Vice Chair Himmelrich, seconded by Committee Member Vazquez, to approve and adopt Resolution No. 2 (ASC). The motion was approved by the following vote:

AYES: Committee Members Vazquez, O'Connor, Ellington,
Vice Chair Himmelrich, Chair Patel
NOES: None
ABSENT: None

ADJOURNMENT

On order of the Chair, the Santa Monica Audit Subcommittee meeting was adjourned at 8:46 p.m.

ATTEST:



Denise Anderson-Warren
City Clerk

APPROVED:



Nimish Patel
Chair