

CITY OF SANTA MONICA
AUDIT SUBCOMMITTEE MEETING
MINUTES

TUESDAY, OCTOBER 18, 2016

A regular meeting of the Santa Monica Audit Subcommittee was called to order by Chair Patel, at 7:04 p.m., on Tuesday, October 18, 2016, at Ken Edwards Center, 1527 Fourth Street, Santa Monica, CA 90401

Roll Call: Present: Committee Member Frances Ellington
Vice Chair Sue Himmelrich
Chair Member Nimish Patel

Absent: Committee Member Pam O'Connor
Committee Member Tony Vazquez

Also Present: Director of Finance Gigi Decavalles-Hughes
Assistant City Attorney Joseph Lawrence
City Clerk Denise Anderson-Warren

CONVENE On order of Chair, the Audit Subcommittee convened at 7:04 p.m., with committee members O'Connor and Vazquez absent.

PUBLIC INPUT There were no members of the public present to comment on any agenda items.

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

Motion by Vice Chair Himmelrich, seconded by Committee member Ellington, to approve the minutes. The motion was unanimously approved by voice vote, with Committee Members O'Connor and Vazquez absent.

EXTERNAL AUDITOR'S UPDATE 4. Receive an Update from the City's External Auditor on the Role of the External Auditor in Detecting Fraud and Lessons Learned from the Placentia Fraud (presented by Rich Kikuchi, Partner, LSL, Inc.), was presented.
(This item was heard with Item 5)

EXTERNAL AUDIT REPORT FOR FY2015/16 5. Receive an Update on the Status of the FY 2015/16 Audit from the City's External Auditor (presented by Rich Kikuchi, Partner, LSL, Inc., was presented. (This item was heard with Item 4)

Auditor Kikuchi acknowledged that the fraud case that happened in Placentia was mentioned at the August 30th meeting, and Chair Patel

mentioned for the record that he and Committee Member Ellington spoke with Auditor Kikuchi in late April after they became aware of the fraud situation in Placentia, and inquired about LSL, Inc.'s role in the Placentia's audit. Chair Patel sent an email to the City Council advising them about the conversation, and explained LSL's role in the Placentia fraud, and explained that LSL will continue to serve as the city's external auditor, but will continue to monitor the situation and provide any recommendation that the subcommittee feels warranted.

The auditor reported that there has not been much update since that time regarding Placentia, but that there have been a couple more cities that reported fraud, which brings the point that regardless of how much monitoring you do, if someone wants to commit fraud, it's going to happen. With regards to Placentia, they have recovered \$4.3 of the \$5.3 million that was stolen, and it was determined that the fraud began in January 2014, five months prior to when LSL, Inc. began as Placentia's auditors.

Lessons learned: Fraud is getting more sophisticated, for example in the City of Dixon a fraud potentially perpetrated through a publicly approved large contract where payments were being made, and the fraudsters fabricated duplicate documents and changed bank account numbers, and the bank institution recognized that something wasn't right.

Questions were asked and answered regarding Placentia, and after it happened did LSL, Inc. go back to evaluate what happened, and if their controls were in place; who downloads bank statements in the city, and do we have controls in place to avoid this type of fraud; was there collusion; how do you prevent one person from having two codes; and, how often does the body or members talk to auditors outside of the meetings, and when would this communication happen.

Discussion ensued on but not limited to: the difference between internal and external audit; new systems that are being rolled out to allow for a way to test external controls; and, things that staff should look for next year in terms of change.

It was reported that from September 19 through October 7, the field work has been completed for the external audit. The city was ready, and the audit went well. There weren't any problems or significant issues. LSL, Inc. is committed to producing a draft Comprehensive Annual Financial Report (CAFR) by the end of the year.

Motion by Vice Chair Himmelrich, seconded by Committee Member Ellington, to receive and file the reports. The motion was unanimously approved by voice vote with Committee Members O'Connor and Vazquez absent.

INTERNAL AUDIT REPORT

6. Receive Internal Audit Reports on Ambulance Billing (including reply from Americare) and Validation of Policies & Procedures (presented by Mark Steranka, Partner, Moss Adams LLP), was presented.

The auditor explained the difference between BLS (Basic Life Saving), ALS (Advance Life Saving), transport and no transport, and the difference for billing purposes. The findings and the four categories that have an opportunity for improvements include: General Recordkeeping, Billing for Core Services, Billing for Special Services, and Revenue Collection.

Questions asked and answered included: Are the call volume numbers correct, because city government believes the numbers are going up; is there a way to make sure that the contract changes with any rate changes; did the auditor agree with some of the pushbacks, or was there a lot of pushback on both sides; why aren't cities interested in auditing ambulance services; how much more revenue could the city make if all of these findings were addressed; is there another way to verify that the services being billed are accurate; what is the percentage of collections; and, is there a way to simplify the system within the County. It's a very complicated system to review.

The auditor recommended to improve the contract since the new contract is coming up. Staff is proposing changes to include verification and a tracking system; bundling so that charges are all together, and see if they can deposit directly into our bank account.

Policy Validation – The first installation was presented. The auditor verified policies and procedures, did comparisons, and produced findings. All were validated, with the exception of two that are pending City Manager review, and two that are still in draft form.

The Finance Director provided information on some of the Internal Controls that are currently being introduced to staff such as the new Supervisor handbook, and looking for new ways to make information accessible

The auditor responded by suggesting video training is the ideal way to train for Finance procedures.

Questions were asked and answered of staff included: is there a train the trainer course being offered through the SMI training; and, how is the tip line going.

Motion by Vice Chair Himmelrich, seconded by Committee Member Ellington, to receive and file the report. The motion was unanimously approved by voice vote with Committee Members O'Connor and Vazquez absent.

UPDATE ON INTERNAL CONTROLS

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

The Finance Director reported that overall progress has not changed since the last meeting in August. Items that are being worked on are Cash Handling, HR Reviews, and Policies and Procedures.

Recommendations that have discrete tasks that are easily implemented include: Counting room security policies and procedures, equipment; Purchase Card violation program. Continuing is Cash Handling Review.

Recommendations to be implemented by the City that will take time to implement: Newly completed/validated – Procurement Card Process Monitoring, Pay rate verification process, and refund process. Continuing – Electronic timekeeping expansion, automated onboarding/offboarding and cash handling policies.

The Supervisor training that was discussed at the August meeting has been held as a pilot program, and it went well. The Director reported that next they are looking at videotaping one of the sessions, to be able to provide an alternative way for people to access the training.

Questions asked and answered included: Things that are high, and things that are left to do, are accounts receivable or accounts payable; and can staff provide a full list of the biggest to the smallest accounts receivables.

Motion by Vice Chair Himmelrich, seconded by Committee Member Ellington, to receive and file the report. The motion was unanimously approved by voice vote with Committee Members O'Connor and Vazquez absent.

UPDATE ON INTERNAL AUDIT WORK PLAN

8. Receive an Update on Internal Audit Work Plan, including progress to date on Enterprise Risk Assessment, Benefits Billing, and Cash Handling (presented by Mark Steranka, Partner, Moss Adams LLP) was presented.

The auditor reported that the Benefits billing work is completed, provided the draft report to HR including findings; Cash Handling is complete, met with departments to discuss best practices and ways to improve their processes; Risk Assessment - began interviews to determine risk, are there areas that need to be addressed, and surveys will be sent to supervisors and managers, with results expected in January 2017; Policies and Procedures validation is on-going; and, Supervisor training is being rolled out with the handbook, and creating a video training on an on-going basis.

Motion by Vice Chair Himmelrich, seconded by Committee Member Ellington, to receive and file the report. The motion was unanimously approved by voice vote with Committee Members O'Connor and Vazquez absent.

ANNOUNCEMENTS

The City Clerk announced that all committee members will retain their current positions until an appointment is made at the December meeting, and that the City Clerk's Office will be responsible for advertising the upcoming appointments.

ADJOURNMENT

On order of the Chair, the Santa Monica Audit Subcommittee meeting was adjourned at 9:08 p.m.

ATTEST:



Denise Anderson-Warren
City Clerk

APPROVED:



Nimish Patel
Chair