

CITY OF SANTA MONICA
AUDIT SUBCOMMITTEE MEETING

MINUTES

TUESDAY, JANUARY 17, 2017

A regular meeting of the Santa Monica Audit Subcommittee was called to order by Chair Patel, at 7:03 p.m., on Tuesday, January 17, 2017, at Ken Edwards Center, 1527 Fourth Street, Santa Monica, CA 90401

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

Absent: Committee Member Pam O'Connor

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

CONVENE On order of Chair, the Audit Subcommittee convened at 7:03 p.m., with Committee Member O'Connor absent.

PUBLIC INPUT Member of the public Laurence Eubank was present to comment on the Audit Subcommittee makeup.

MINUTES 3. Approval of Minutes for the Audit Subcommittee August 30, 2016 Meeting, were presented.

Motion by Vice Chair Himmelrich, seconded by Committee Member Ellington, to approve the Minutes as presented. The motion was approved by voice vote, with Committee Member O'Connor absent.

MINUTES 4. Approval of Minutes for the Audit Subcommittee October 18, 2016 Meeting, were presented.

Motion by Vice Chair Himmelrich, seconded by Committee Member Ellington, to approve the Minutes as presented. The motion was approved by voice vote, with Committee Member O'Connor absent.

CAFR 5. Receive the Consolidated Annual Financial Report (CAFR) Executive Summary (presented by Rich Kikuchi, Partner, LSL, LLP).

Mr. Kikuchi presented and reported that the City of Santa Monica financial transactions are being properly recorded and assets are being safeguarded. His company issued an unmodified opinion. The Financial Audit included:

Assess Internal Controls; Separate Financial Statement for the Big Blue Bus; Air Quality; Federal Single Audit, and Auditors' letter. Overall, there were no material or significant discrepancies or weaknesses.

Members of the public Wes Wellman, Mary Marlow, Elizabeth Van Denburgh, and Laurence Eubanks commented and raised questions on the CAFR.

Questions asked and answered included: what is considered materiality for this audit; what is the distinction between internal controls for the internal audit and the internal controls for the external audit; explain the restatement with the Parking Authority; where pension liability is covered in the report; the City Manager asked what are the pros and cons of using the Net Balance sheet; how many years is the unfunded liability, and how is ours compared to other cities.

Motion by Vice Chair Himmelrich, seconded by Committee Member Ellington, to receive and file the presentation, and provide comments as stated. The motion was approved by voice vote, with Committee Member O'Connor absent.

SCOPE OF WORK

6. Receive and approve Scope of Work for Internal Audit Assessment of City's Compensation and Use of Overtime by Sworn Personnel (presented by Mark Steranka, Partner, Moss Adams LLP), was presented.

Mr. Steranka presented the comparisons considered in the Scope of Work areas of focus:

- 1) The deliverables;
- 2) Wage setting (how do we pay): Review the City's overall process for establishing compensation levels; and,
- 3) Overtime Utilization in Public Safety: Review overtime environment and usage.

The goal will be to get more visibility and transparency to the process and numbers, as to how staffing and compensation is used as a City, and try to do that efficiently.

Member of the public Wes Wellman commented on this item.

Questions asked and answered included: Is this something that needs to go before the City Council for approval; has there been a comparison of wages between the private and public sector; an explanation as to why Moss Adams is considered an independent analyst on this subject; are you looking at the overtime, and in comparison does it make more sense to hire more people, or to maintain the current overtime levels; is this project based on an hourly amount or a fee; can you share the other cities that Moss Adams has done this for; assuming in a mature workforce where you have the inverted pyramid, will Moss Adams have suggestions for the city as to hiring decisions, etc.; is there any special advantage that Moss Adams has because

they are the city's internal auditor, and maybe other firms should be considered for this type of work; what is the typical interval to perform benchmark studies (full compensation study); would Moss Adams recommend a phased approach.

Discussion ensued on the following, including, but not limited to: Compensation versus overtime, with benefits, and amount of efficiency during overtime, consider contracting out for certain types of jobs for better stability; the hiring system and consideration for the need to change that system.

Motion by Vice Chair Himmelrich, seconded by Committee Member Ellington, to receive and approve the Scope of Work for Internal Audit Assessment of City's Compensation and Use of Overtime by Sworn Personnel. The motion was approved by voice vote, with Committee Member O'Connor absent.

The City Manager requested that the staff come back with the final Scope of Work, including the amount, to the next Audit Subcommittee meeting.

INTERNAL AUDIT REPORTS

7. Receive Internal Audit Reports on Human Resources Billing, Cash Handling and Enterprise Risk Assessment (presented by Mark Steranka, Partner, Moss Adams LLP), was presented.

Vice Chair Himmelrich stated for the record that she would like to continue the discussion on Item 7 & 8 until the next meeting, because she did not have time to read them.

There was no one present to speak on this item.

Moss Adams presented the following: HR Benefits Billing – Manual process, limited staffing, performed a comprehensive reconciliation, which was comparing the eligibility in enrollment to the invoices to the payroll deductions. Through the reconciliation process, some recommended process improvements include: The Enterprise Resource Product (ERP), an online benefit program, a full comprehensive plan, including time frames, a system that could improve some processes. If neither of the two current systems work, look outside for a different system that might work; Policy and Procedures – examples of Best Practices Management. A strategic solution for the City would be to get more of the bargaining unions to solidify their benefit plans, thereby making it easier to administer, either through technology or through bargaining negotiations.

Internal Controls testing of Cash Handling – Performed unannounced cash visits, and shared results with Department Heads for those departments; provided specific detailed findings, and provided opportunities for improvements, and procedures and training are key.

Risk Assessment - Assessed risk that is under the City's control; Santa

Monica has no high risk ratings; seven risk ratings were moderate to high, and almost all of the risk ratings were flat, which shows a lot of stability; there were only three risk areas that were rated as increased risk. There are some things that make Santa Monica unique: the high number of daytime population; Geography (beach, surrounded by large cities), the city offers a high level of City Services. 1) Highest risk area with increasing trajectory was Human Capital and Resources (recruiting and retention, high cost of living, and long commutes); 2) Management (change driven, new people and positions); and 3) Technology (retaining IT staff, new ERP system coming in, IT Governance, and IT Security). Overall the city is at a lower risk position than many other cities, a moderate rate is a good risk rating.

Health questions asked and answered of staff included: Is there some way to work with the insurance companies to make the relationships easier; Have you talked with staff to see if the recommendations are feasible; were there any of the 13 findings that we really need to look at; is there a mechanism set up that you can actually identify people who have passed away, and the city is still paying the premiums; what can we do to make improvements so that all areas are improving; were there any concerns about the offsite locations, and were they selected for any specific reason; disaster preparedness, what specific areas; and, as employees are approaching retirement, is there any timeframe required, and is that typical to only have a two week notice.

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

UPDATE ON INTERNAL AUDIT WORK PLAN

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

There were no members of the public present for this item.

Mr. Steranka presented; the Ambulance Billing Review, the Benefits Billing and Reconciliation, and Enterprise Risk Assessment were received; Policies and Procedures Validation and Cash Handling Review is on-going.

Supervisor Fraud-Detection Training – create an online version that could be accessed by all employees.

Parking Contract Process review – Audit the vendor and their processes, extending the current contract for one additional year, then send out for a Request for Proposal, similar to the Ambulance Billing Review.

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

ADJOURNMENT

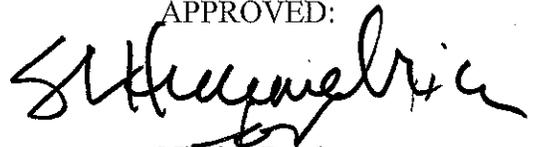
On order of the Chair, the Santa Monica Audit Subcommittee meeting was adjourned at 9:58 p.m.

ATTEST:



Denise Anderson-Warren
City Clerk

APPROVED:



Nimish Patel
Chair