

(NOT APPROVED)

**CITY OF SANTA MONICA
AUDIT SUBCOMMITTEE MEETING**

MINUTES

TUESDAY, OCTOBER 17, 2017

A special joint meeting of the Santa Monica Audit Subcommittee and Compensation Study Advisory Committee was called to order by Chair Himmelrich, at 6:06 p.m., on Tuesday, October 17, 2017, at 330 Olympic Drive, 2nd Floor (Plaza Level), Santa Monica, CA 90401

Roll Call: Present: Subcommittee Member Greg Morena
Subcommittee Member Elizabeth Van Denburgh
Vice Chair Tony Vazquez
Chair Sue Himmelrich

Absent: Subcommittee Member Pam O'Connor

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

CONVENE

On order of Chair, the Audit Subcommittee convened at 6:06 p.m., with Subcommittee Member O'Connor absent.

MINUTES

2. Approval of the Minutes for the Audit Subcommittee August 23, 2017 Meeting, was presented.

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

Subcommittee members Van Denburgh and Morena stated that their names were misspelled, and asked for corrections.

Motion by Chair Himmelrich, seconded by Subcommittee Member Morena, to approve the minutes, as amended. The motion was approved by voice vote, with Subcommittee Member O'Connor absent.

AUDIT STATUS

3. Status of the Annual Audit, was presented by Richard Kikuchi and Brandon Young of LSL CPA's.

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

An update of the Financial Audit was given. It was reported that the field work was completed a couple weeks ago. Things reviewed included: cash and investments; capital assets; accounts payable; and long-term debt. Some follow-up test work is still in process. The audits performed included

the City's Comprehensive Annual Financial Report (CAFR), the Big Blue Bus Audit, the Federal National Transit Database (NTD) Report, the Air Quality Management District (AQMD) Audit, and the Federal Single Audit, which will begin in January 2018. It was also reported that the CAFR is materially correct; and additional letters to be issued include the Statement on Auditing Standards (SAS) No. 115, a report on internal controls, and the Audit Communications Letters which address Account Estimates, Management Letter Representations, and if there are any disagreements about the Audit.

Questions asked and answered included: The biggest risk this year or in the past; have all Councilmembers been interviewed; any coordination between internal and external auditors; any of Moss Adams staff to help with the financial audit; what's going to be in the representation letter; will there be an Executive Session between the auditor and Council; have there been any policy changes in reporting as regard to pension liability; what is considered to be a material risk; did you look at internal reviews before beginning your audit process, and would it be wise for the Audit Subcommittee to meet with the Auditor without staff.

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

SPECIAL JOINT MEETING

On order of the Chair, the Audit Subcommittee convened to a special joint meeting with the Compensation Study Advisory Committee at 6:24 p.m., with Subcommittee Member O'Connor, Advisory Committee Members Gomez and Thanawalla, absent.

LABOR NEGOTIATIONS

4. Labor Negotiations Pursuant to the Meyers-Milias Brown Act, was presented by Laura Kalty, Liebert Cassidy Whitmore.

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

The presenter reported information about the Meyers-Milas-Brown Act, which governs labor relations for cities, counties, and special districts, including the Public Sector Labor Relations Framework, and Labor Negotiations Process.

Questions asked and answered included: Is it common for cities to hire outside negotiators; when you're brought in from the outside does the amount paid depend on the amount negotiated; who does it go through to discuss changing employee work environments for the future, and do you foresee any changes in terms and policies as a result of the new City Services Building; what could be a need of a city to hire an outside negotiator; is it true that retroactively benefits cannot be taken away; could you roll back compensation if you reach an impasse, what is the employee's recourse if there is an impasse, and what is their remedy or recourse.

*Advisory Committee Member
Thanawalla arrived at 6:48
p.m.*

Motion by Subcommittee Member Morena, seconded by Subcommittee Member Van Denburgh, to receive and file the information received by Ms. Kalty. The motion was approved by voice vote, with Subcommittee Member O'Connor absent.

CIVIL SERVICE STRUCTURE

5. Review of Civil Service Structure was presented by Donna Peter, Human Resources Director.

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

The HR Director reported that the Civil Service System is established in Article XI of the City Charter, and any changes to the Charter are subject to a vote by the people. The basic principal behind Civil Service is that it is a Merit Principal system, which provides Fair Employment Practices, and Classified Service. She explained the difference between Classified and Unclassified service; other Key Civil Service Rules in the Charter including: filling vacancies; Promotional List "rule of three"; Abolition of positions "layoffs"; and, Discipline; Property rights for Civil Service employees.

Questions asked and answered of staff included: Is there a time when employees have bumping rights, and how that applies; are there performance evaluations in departments; how do you deal with underperforming employees; do the Police Chief and Fire Chief report directly to the City Manager and does he have the rights to terminate them without approval from City Council; what does testing, exam, or self-evaluating mean; what are the benefits to bumping from the top-down; are there cities who bump based on performance; has HR done any innovative programs to motivate the superstars, instead of always focusing on the poor performers; how long is probation; how long is the due process; after probation, what is the timeline for due process for the employee; are we looking at efficiency of staff, and coming up with a better performance evaluation; has there ever been a time when layoffs happened and bumping has occurred; and, has there ever been an organizational chart created with all departments and all staff, and overlay the City's strategic goals over that information, and is that part of the performance budget.

Motion by Subcommittee Member Morena, seconded by Subcommittee Member Van Denburgh, to receive and file the information presented. The motion was approved by voice vote, with Subcommittee Member O'Connor absent.

COMPENSATION AND STAFFING REVIEW

6. Review and Discussion of Preliminary Observations for the Compensation and Staffing Review, was presented by Moss Adams, LLP

Members of the public Ian Novos and Mary Marlow commented on this item.

Mark Steranka of Moss Adams gave an overview of the progress of the four stage process that was introduced at the last meeting, including: A kick-off meeting to discuss the workplan, incorporating requested adjustments; Fact finding; sharing the partial preliminary observations (analytical phase) at the November meeting; and in January presenting the conclusions.

Colleen Rozillis of Moss Adams discussed the four areas of the Study included: Wages and Benefits; Wage and Benefit setting process, Staff and Service levels, and Public Safety Overtime. She reported that a lot of fact finding has been done, including interviewing every Department Head in the City, interviewing representatives from each labor group, and researching industry best practice related to compensation, data analysis, budgets, annual financial reports from the city and all peer cities, all labor agreements and Memorandums of Understandings from the city, as well as the peers, as well as compensation data from the State Controller's Office, with five years of data starting back in 2012 through 2016. They are getting good responses from Peers, but not be able to capture Anaheim because of the disaster that they are dealing with right now. She reported that all cities and municipalities are different, so making the comparison can be difficult because Santa Monica has high expectation of service level, and has been able to continue with cost of living increases and staff increases, whereas other cities are still catching up from the recession. Santa Monica has additional services such as the Airport, Cemetery and Pier/Beach that are not offered in other cities. There are other services that Santa Monica offers at a higher level of service than other cities, such as: the level to which custodial and facilities and exterior maintenance is performed; housing; solid waste; and the Attorney's Office (doing a lot of their own litigation, prosecution, and a lot of public interest law).

Questions of staff and Moss Adams include, but not limited to: Is there a way to separate or bunch together by function, instead of by department; any preliminary conclusions as to which city is most like Santa Monica; are there cities that should have or have not been included; what's the overhead factor for benefits over the salary number; what are you going to do to give comparisons that are equivalent; is tenure, qualifications, and experience included in the research and data; what are some of the innovation cities; will the per capita data be included; how do you verify the comment, "No COLA is too small"; do you know the cost to outsource tree trimming; why isn't the Big Blue Bus included in the report; is the miscellaneous employees overtime being included; in a future chart is there a forecast to look at the cost for Fire and PD, and the number of officers that will be needed.

Considerable discussion ensued on topics including, but not limited to: get away from the departmental level and look at the function; would like to receive the data and backup before the analysis is done; create an

analysis of some “like or market” positions with comparisons to other municipalities, including the private sector, for example: HR Director, Custodian, Attorneys, Bus Drivers, Trash Truck Drivers, IT; include total cash compensation for three positions from each department from across the board (three entry level, three mid-management, 3 upper management, and 3 Directors) without Public Safety; place a footnote for other cities that have anomalies; would like to see same categories compared in PD and Fire; look at outside organizations who may have already done this type of comparison; and, there could be a difficulty getting data from the private sector to compare salaries, wages, and benefits to the city’s public sector jobs.

Motion by Chair Himmelrich, seconded by Vice Chair Vazquez, to receive and file the report, including direction given to staff for the Compensation and Staffing Review. The motion was approved by voice vote, with Subcommittee Member O’Connor absent.

ADJOURNMENT OF SPECIAL JOINT MEETING

On order of the Chair, the special joint meeting with the Compensation Study Advisory Committee was adjourned at 9:16 p.m., and the regular meeting of the Audit Subcommittee was reconvened with Subcommittee Member O’Connor absent.

INTERNAL AUDIT

7. Internal Audit Status Report, was presented by Mark Steranka, Moss Adams, LLP.

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

Mr. Steranka reported the following: Accounts Receivable Review is on-going, Compensation Review is on-going, Policies and Procedures Validation progress will be reported by the Finance Director, Supervisor Training webinar is on-track, P-Card Internal Control Testing will begin in November with a report in April 2018, Fleet Efficiency Study and Big Blue Bus Study had initial conversations talking about areas of focus for these studies. BBB focused in on an Overtime Study and Fleet Efficiency Study will have an initial scoping with Fleet Management to determine the scope of work that is beneficial.

Questions asked and answered included: There’s a lot of fleet out there, are you pulling back on that or boring ahead on it; Is the cost of the fleet another aspect of that to determine the efficiency, do you look at how the fleet meets the needs; does this include the Big Blue Bus; when is the cost analysis being done to determine when to extend Public Safety for citywide events; and, did we get the results of the Enterprise Risk study that was done earlier this year.

Motion by Chair Himmelrich, seconded by Subcommittee Member Morena, to receive and file the Internal Audit Status Report as presented. The motion was approved by voice vote, with all members

present, except Subcommittee Member O'Connor.

INTERNAL CONTROLS REVIEW

8. Internal Controls Review Progress Report, was presented by Gigi Decavalles-Hughes, Director of Finance.
 - a. Internal Controls Review Progress Report Presentation
 - b. Policy Validation Results

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

It was reported that Moss Adams gave feedback to the Finance Department on 41 items that required new or updated policies and procedures, and at this time, 23 of the 41 policies have been completed, with 13 near or partially completed, and six of them currently in the review process. Pending Internal Audit Review/ERP there are five items overall, and four of those five have to do with the city's Enterprise Resource Planning (ERP) system, which is planned to go live within the next year. When the Progress Report came out, Moss Adams broke it out into various areas to address the likelihood of risk and impact, but also how to tackle those risks.

Recommendations addressed through Internal Audit Workplace include:

- Monthly Bank Reconciliation Process Review completed/validated
- Ambulance Provider Audit completed/reconciliation process validated
- Counting Room procedures validated
- Fraud training conducted, will be placed online
- Cash Handling Audit completed
- Accounts Receivable Audit in process

Recommendations that have discrete Tasks that are easily implemented:

Completed/Validated

- Counting Room security policies and procedures
- Accounts Payable policies and procedures
- Grants policies and procedures
- Purchasing Card violation program
- Security measures for cash-equivalent items

Continuing

- Cash handling policies and procedures in review

Recommendations to be implemented by the City that will take time to implement:

Newly Completed/Validated

- Procurement Card process and monitoring
- Pay rate verification process
- Refund process
- Hired Grants Administration position, policies in place, training done
- Overtime monitoring

Continuing

- Electronic timekeeping expansion
- Automated onboarding/offboarding
- Cash handling and billing and collections policies are under review

Questions asked and answered of staff included: who is responsible for monitoring the Ethics Hotline; do you receive anything audit related on the hotline; and, what is the new ERP system the city is planning to use.

Motion by Subcommittee Member Van Denburgh, seconded by Chair Himmelrich, to receive and file the Internal Controls Review Progress report. The motion was approved by voice vote, with Subcommittee Member O'Connor absent.

ADJOURNMENT

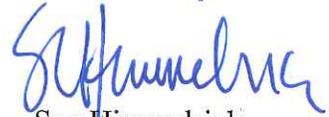
On order of the Chair, the Santa Monica Audit Subcommittee meeting adjourned at 9:48 p.m.

ATTEST:



Denise Anderson-Warren
City Clerk

APPROVED:



Sue Himmelrich
Chair