

AUDIT/FINANCE COMMITTEE
April 30, 2019
MEETING MINUTES

After determining that a quorum was present, the Audit/Finance Committee of the City of Denton, Texas, met for a regular meeting on April 30, at 11:00 a.m., in the City Hall Conference Room, at City Hall, 215 E. McKinney Street, Denton, Texas.

PRESENT: Mayor Chris Watts, and Council Member John Ryan.

ABSENT: Council Member Paul Meltzer.

STAFF PRESENT: Todd Hileman, City Manager, Antonio Puente, Jr., Interim Assistant City Manager, David Gaines, Assistant Finance Director, Cody Wood, Assistant Controller, Cassandra Ogden, Director of Procurement and Compliance, Jamie Lindsey, Compliance Officer, Umesh Dalal, City Auditor, Madison Rorschach, Auditor, Nancy Towle, Treasury Manager, Hailey Payne, Treasury Analyst, and Theresa Jaworski, Recording Secretary.

OPEN MEETING:

Council Member and Committee Chair, John Ryan, brought the meeting to order at 11:07 a.m.

1. ITEMS FOR CONSIDERATION

A. AF19-023 - Consider approval of Audit/Finance Committee Meeting Minutes of April 16, 2019.

Mayor Chris Watts made a motion to approve the April 16, 2019, Audit/Finance Committee meeting minutes. Council Member and Committee Chair, John Ryan, seconded the motion. Motion passed unanimously.

B. AF19-020 - Receive a presentation, hold a discussion and provide staff direction regarding an internal audit of the City's Procurement Card Program.

Umesh Dalal, City Auditor, explained the timeline on the Procurement Card Audit showing meeting times with the Internal Audit Department and the Procurement Department, the data and the observations that were provided in November of 2018, and discussions on all the issues during November offering opportunities for analysis and discussions with Internal Audit to resolve any differences.

Dalal stated his concern with Texas Local Government Code, Section 252.022, defining general exemptions for procurement regulations, Procurement's misinterpretation of Subsection 3, and his decision not to go forward without an attorney's consultation. An agreement was reached to omit purchases for repair and present the remaining items as exempt with all other items that were identified

as non-compliant in the audit report. There were about nine contracts included that were entered after the audit was completed. Those contracts also represented non-compliance.

Watts requested a response from staff.

Todd Hileman, City Manager, expressed staff's concerns on the time allowed for conversation between Internal Audit and the department, data and observations that were presented, conclusions reached without clear direction on how to comply, and the poor communication between Internal and the department. This is contrary to the team approach that would provide additional guidance and better communication to staff from the Internal Audit Office on what needs to be corrected and what is required to come into compliance.

Watts advised that the communication team that the City Manager has created will correct some disconnect and will work with the Internal Audit Office is a part of that team.

Dalal stated when doing an audit, we agreed to meet with the team facilitating efforts to get us the right data, and give direction to the right people to work with and Internal Audit will provide status of the audit to the team and the department, from time-to-time, to inform them of what is being observed.

Todd Hileman, City Manager, added that there needs to be a breakdown in the audit finding formats to further define what the problem is and how to comply. To sit down with the team with another level of specificity to report to the Audit/Finance Committee and City Council, setting out the recommendations and our plan for compliance. With some help generally defining what our specific fix is, there can be a process in place to maintain the auditor's independence.

Watts asked for recommendations from the City Auditor.

Dalal responded that a recommendation that the City have a monitoring process, that works with p-card transactions and implemented by the Procurement staff for the City. Once the recommendation is made, management can come up with the plan.

A discussion followed on including the City Attorney's Office and the need for their opinion, especially when dealing with interpretations of state procurement regulations.

Watts summarized that the Communications team is responsible for requesting clarity and the Internal Audit team is responsible for providing more detail. Going forward, there will be more collaboration. Preserving the independence of the Internal Audit function and to take the audit findings, ask for help in understanding how they were determined and the general principles on what is required, and we will build the infrastructure under that to bring them into compliance. This new process comes out of some questions or concerns that will improve the process.

Dalal agreed that the team the City Manager put together will help with communication and things will be better from here on.

Tony Puente, Chief Financial Officer, pointed out that the total number of transactions reviewed in this audit versus the actual number of transactions that were identified as potentially non-compliant was really a small amount, and that's good news. There is no disagreement with the recommendation, it is a good recommendation and has been part of the City's Procurement Manual for many years. There are some differing interpretations on when things may or may not reach those thresholds that we will continue to vet, but generally speaking, we agree with the finer points on some of the data.

It is important to understand that it is fine to receive a data dump of transactions to review and determine that they are non-compliant. There is a need to know what the role between the City department and the Internal Audit department. Just stating the total transactions that they have been aggregated, and are non-compliant is fine, but it is difficult to understand how they are determined non-compliant, without an individual sampling of transactions. There were 2,000 of the 8,000 transactions, in staff's opinion, that were clearly exempt from those requirements. That was work that the department had to do and what contributed to some of the timeframe. There is a need for an understanding between the Internal Auditor and departments, of the expectation when that information is received, as to who will be digging into the individual transactions. Our experience with external auditors we've worked with, has been that they do that sampling of the transactions to be sure that the transactions actually are non-compliant. A discussion on that expectation with the Internal Auditor will reduce the transactional work.

Watts agreed and added that this should be a team discussion.

Dalal stated that the estimate quotes included in the p-card report and discussed at the last meeting raising some concerns, have been removed.

C. AF19-021 – Receive a report, hold a discussion and provide staff direction regarding an internal audit of the City's Utility Cuts Program.

A discussion followed on the City's utility cuts program and future audits. There is a need to address the questions, provide clarity to reach a collaborative agreement in taking the audit report forward. With the Internal Auditor's clear understanding of the Committee's and Council's expectation for a timely delivery of the audits so all involved can on-board to taking it forward and if there can be flexibility in the time to provide the audits.

Watts stated that he would like to hear the Internal Auditor's professional opinion on an audit with any disagreement addressed as well.

Hileman expressed the need for a change in the process to provide the avenue to an agreement on the formulas that are used and the conclusions drawn and that be submitted together for a balanced story.

Watts agreed adding that there can be an understanding. There may be a disagreement with the results but agree with how the data was gathered and the understanding of how the process works will enable an agreement.

Ryan asked if the Committee should hold off on the City's Utility Cuts Program report until the process is complete, so that all understand what processes should be changed.

Dalal stated at the end of an audit, with emphasis on communication and working with the new team that has been established, the issues can be addressed to facilitate resolution to the satisfaction of all parties involved.

Ryan agreed that communication should remain within the City's department and Internal Audit to address any disagreement until a solution is reached.

Dalal submitted that an audit benefits the City when the identified issue is addressed and that is the objective.

Watts made a motion to postpone receiving the Utility Cuts Program report until the City Management and Internal Auditor have the meetings to address the questions and comments.

Ryan seconded the motion. Motion carried unanimously.


2. CONCLUDING ITEMS.

With no concluding items to address the meeting was adjourned at 11:56 a.m.

The April 30, 2019 Audit/Finance Committee Meeting Minutes were approved on June 18, 2019.



John Ryan, Audit/Finance Committee Chair



Theresa Jaworski, Recording Secretary