

APPROVED MINUTES APPROVED ON 05/18/2015



**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

MONDAY, MARCH 16, 2015

**CITY HALL
KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251**

REGULAR MEETING

PRESENT: Suzanne Klapp, Chair
Virginia Korte, Councilmember
Kathy Littlefield, Councilwoman

STAFF: Sharron Walker, City Auditor
Kyla Anderson, City Auditor's Office

GUESTS: Robert Fisher, Information Technology Department
Brad Hartig, Information Technology Department
John Moede, Fire Department
Rachel Smetana, Mayor's Office

CALL TO ORDER

Chair Klapp called the meeting to order at 4:03 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

1. Approval of Minutes, Regular Meeting, January 26, 2015

COUNCILMEMBER KORTE MOVED TO APPROVE THE MINUTES OF THE JANUARY 26, 2015 REGULAR MEETING. COUNCILWOMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

2. Discussion and possible direction to staff regarding Audit Report No. 1511, Disaster Recovery/Business Continuity

Kyla Anderson of the Auditor's Office presented the report, which was conducted to evaluate the City's risk management and preparedness for recovery from significant business interruption. The last business continuity audit was performed in 2001. At that time the City did not have a business continuity planning program. In 2009 they terminated a planned follow-up because little progress had been made on the 13 specific recommendations from the original audit.

Disaster recovery and business continuity planning is important preparation for a major disruption caused by unexpected events. Disruption in service delivery may impact the City's ability to provide water, police services, traffic control and other vital services that impact the health and safety of Scottsdale citizens and visitors. City Code requires a comprehensive disaster plan that is adopted and maintained by resolution. The responsibility of the disaster plan is held within the Office of Emergency Management in the Fire Department.

Many standards setting organizations have developed disaster recovery and business continuity standards and planning frameworks which are very closely related to each other. The City Auditor's Office used the ISACA Business Continuity Management Audit and Assurance Program to conduct this audit.

The auditors found that of the 13 specific recommendations contained in the 2001 audit, one was implemented, three no longer apply and nine have either not been implemented or are in the process of implementation.

The auditors found that further preparation is needed to ensure essential operations continue during an emergency and normal operations can be resumed afterward. Some City departments such as the Water Resources Division and the IT Department maintain business continuity plans. However there is no coordinated effort for departments to maintain updated business continuity plans or for emergency management staff to review the plans to ensure they are based on a risk assessment and business impact analysis.

Councilmember Korte stated that clearly the business continuity plan has stalled for 14 years and asked where the plan would go from here. Ms. Walker said part of the reason planning has stalled is because Arizona is not threatened by natural disasters. In discussion with the Fire Chief and the Emergency Management Coordinator, they felt there was not a centralized perspective with the function being in the Fire Department. However, the Fire Department has committed to work to ensure that this plan is updated and completed.

Chief Information Officer Brad Hartig said from an IT perspective, they are currently working with a consultant who is evaluating a plan they are bringing forward. He acknowledged that they have a fairly significant exposure in that the primary data center is located in the SCA. They do not have an alternate computing site. There is no web-based backup, although there is backup stored at another location in the City. The problem is they do not have alternative equipment to which the backup could be restored.

The department has developed a proposed plan which the consultant is critiquing, and the final results will be out in a month to six weeks. Some CIP funding was approved for this year but it is not enough to address this issue.

Mr. Hartig elaborated that they are not recommending building a second data center within the City, but rather to leverage a third party data center elsewhere in the Valley and ultimately be able to leverage cloud computing resources through Microsoft licensing. There is a trend in the IT industry that expenses are increasingly operating expenses rather than capital expenses. He summarized that they are in a good position to bring forward a solid proposal for the City. He added that there are many third party data centers in the Valley precisely because Arizona is not subject to the natural disasters that threaten other regions.

Chair Klapp inquired about the risk if someone wanted to take down the City's system. Mr. Hartig said it would be speculating. An occurrence might happen at the Scottsdale Center for the Arts that would jeopardize the data center. After 9/11 the facility was hardened. He opined that water damage from the sprinkler system is the biggest risk to the data center.

Chair Klapp asked whether other cities are further along in their disaster planning. Mr. Hartig said a lot of Valley municipalities are struggling with this. The challenge is that technology is changing so rapidly. Duplicate systems are very costly to buy. He outlined virtualization through server farms, saying this is probably what they will implement. Once the consultant has reported, the department will bring it to the City Manager for the budget process. He summarized that this will be a multi-year effort. Their strategy is also to leverage the equipment replacement funds as much as possible. This approach is more cost effective.

Chair Klapp asked about cloud-based backup. Mr. Hartig replied that the City's backup technology is state of the art. However he cautioned that today in a best case scenario if the City's entire systems had to be totally restored, it would take at least nine days to complete the process.

John Moede of Emergency Management at the Fire Department said the audit was very fair. The City does not have a business resumption plan. He told the Committee members that the IT department is the most critical function for emergency preparedness as IT affects all departments.

3. Discussion and possible direction to staff regarding Integrity Line Status Update

City Auditor Sharron Walker reported they have received five comments so far on the Integrity Line, mostly via email. The Auditor's Office has conducted a detailed review of one. Another is still in the preliminary stages and others have been referred to other departments. For example, one citizen questioned why horses were using certain trails and when Parks staff investigated they discovered some of the signage is incorrect. That is now going to be rectified.

Ms. Walker said it is typical that members of the public will report issues that are not strictly related to fraud waste and abuse. She added that from time to time she will have

the Office of Communications advertise the availability of the Integrity Line. Also, information is posted on the City website. Ms. Walker acknowledged the help of Mr. Hartig and IT staff in getting the website and phone line up.

4. Discussion and Possible Direction to staff regarding City Auditor's Budget Update

Ms. Walker reported that the Auditor's Office will not spend its entire budget this year, as the contractual services were not used as soon as they had anticipated. Her plan for FY 2015/2016 is to leave that funding in contractual services. They will request a budget very similar to the current year for FY 2015/2016.

5 Discussion and possible direction to staff regarding the Audit Committee's Sunset Review Program

Ms. Walker requested input from the Committee on the sunset review process for boards and commissions. Some of these bodies are permanent because they are established in either the City Charter or statute, and therefore have not been reviewed. While some statutes require that the City have certain functions, the specific body is not required. For example, the roles of the Planning Commission and Board of Adjustment could in fact be performed by City Council. These are in the review list because it would be possible for the Committee to recommend sunsetting these bodies if City Council wanted to take on their roles. Ms. Walker stated that she would forward soft copies of her research to the Committee members.

Chair Klapp commented that over the past three years the Committee has reviewed all the boards and commissions on the list and they are ready to start over.

Ms. Walker outlined how the process works for each review. The Committee members agreed that the process is working well.

Councilwoman Littlefield asked whether the permanent bodies are being reviewed to make sure they are fulfilling their mandate. Rachel Smetana confirmed that the permanent bodies are also compiling annual reports. Ms. Walker commented that all of the annual reports are included in one report to Council that is on the consent agenda for March 17.

6 Discussion and Possible Direction to Staff Regarding Preliminary FY 2015/16 Audit Planning

Ms. Walker presented a preliminary audit schedule for the next fiscal year and asked the Committee members to consider the information and email her their thoughts.

Chair Klapp asked if there are any audits Ms. Walker believes they absolutely need to do next year. Ms. Walker said she is not yet at that point. Some possibilities would be contracts with third parties from bed tax funds. Water Resources is interested in a security audit. She had hoped to have it done this year but that was not possible. A

contracted audit of Police Department staffing might be helpful to City Council. The City Manager has indicated he would provide extra funding to be able to conduct that audit.

Councilmember Korte requested that the proposed topic information be sent to them electronically. Councilmember Korte asked about an audit of the Preserve. Ms. Walker said that is a potential topic on her list.

Ms. Walker noted that there are some possible audits, such as use of consultants, would be city-wide rather than focused on a specific department.

The Committee discussed the factors that are taken into consideration in developing the audit plan. Ms. Walker said the possible audits are in roughly descending order of importance, but added that sometimes if an area has not been looked at for a while it is worthwhile carrying out an audit, even if the area is ranked a lower priority. The rating factors still need to be tweaked to better reflect this consideration.

The E-Verify program is supposed to be audited regularly, and Ms. Walker said she may put that on the plan for FY 2015/2016. Cash handling is another, and the scope of the cash handling audit can be sized to accommodate other projects.

Human Resources has requested an audit of compliance with the fingerprinting and drivers license programs. These are smaller in scope than many of the other audits. Committee members commented that any volunteers interacting with children should be fingerprinted. Councilwoman Littlefield asked whether the City has any liability with respect to volunteers from other organizations running programs in the parks. Ms. Walker said she would have to ask the City Attorney's Office. Councilwoman Littlefield suggested that perhaps the City should ensure that the organizations concerned are indeed fingerprinting their volunteers.

Ms. Walker summarized that they aim to conduct about 14 audits each year, plus the sunset reviews.

7 Discussion and Possible Direction to Staff Regarding the FY 2014/15 Audit Plan Status

Ms. Walker noted she has added an item based on information received through the integrity line and anticipated completing this in April. But based on the current status, she recommended that the Committee's next meeting be scheduled for May 18 rather than April. This will also allow additional time for the new Library director to go through the business operations audit.

8 Discussion and Possible Direction to Staff Regarding Agenda Items for Next Audit Committee Meeting (May 18, 2015)

Ms. Walker said they will present the library business operations report and conduct the sunset review of the Neighborhood Advisory Commission.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 5:00 p.m.

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