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>> Alter: Good mornng. We are in the boards and commissions room for the audit and finance committee meeting. I'm Alison alter, I'm chair. I'm joined by Leslie pool,vi ce-chair. Our colleagues will be here shortly. It is 9:40. We're going to go ahead and get started with those items that don't require action. We have a lot of consultants here so I want to hear that. We'll be hearing the same report for at least one of them at council shortly for the full council, so I'd like to call upm 3. There are no people signed up for citizen communication this morning. We'll come back to the minutes after this. And thank you, councilmember tovo, for joining us. >> Tovo: Sorry for the delay. I'm also going to officially call the meeting to order now that we have a quorum with councilmember tovo, councilmember pool and myself at 9:42. >> Good morning. My nes be lane da weaver. I am the interim city treasurer. Today with me I have Jim Mcphillips and Jim Richey. They are both senior actuaries with Bolton partners. In addition, we have the executive directors of all of the city's pension boards in the audience with us today. We are here to present the final audit report of the audits of the actuarial studies, valuations and reports for the city's three pension systems, which include the city of Austin emees retirement system, the Austin fire relief and mentreund and the Austin police retirement system. In compliance with chapter 802 of the government code, the city issued a request for proposal last year for auditing the actuarial reports of the city's pension systems by an independent actuary. Bolton partners was selected to perform these audits.

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The state does require that audit be performed every five years for those pension plans with assets of over 100 million, and that encompasses all T of the city's pension plans. In addition, the audit covers a five-year period so this audit Cser the period of 2013 through 2017, and stat law also requires presentation of the report to the governing body. I would like to note that during the course of the audit, Bolton partners worked closely with our pension systems and their actuaries and a draft audit report was provided to each pension systemingow them the opportunity to respond. Each pension

system did review the draft audit report and responses were provided and included in the final audit report which you have today. Now I will turn it over to Bolton partners to go over the audit report. >> Thank you. I'm McPhillips. I'll start off by thanking you for the opportunity to perform the review for you. I'll give you a quick -- our agenda for today is just to make sure you the purpose of our review, explain our process a little bit, give you a summary of R results and then the -- give you an opportunity to answer questions if you have any. So the purpose as Belinda mentioned, you have some requirements with the three systems for the state, so that aside, our purpose as actuarial review was to check the appropriateness of the assumptions and methods that were used to perform the actuarial evaluations from 2013 to 2017 and give you our commentary on the completeness of the actuarial reports. And whether they're in line with actuarial standards. And then provide some recommendations for you going forward. Our process involved, as mentioned, gathering information. So we got all the reports. We had an initial discussion

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with the plan administrators and then we went back to review all the information that was provided. One of the things we do, especially with the discount rate, we look at what's called NASB, national association of actuarial associations. We look at benchmarks such as the horizon survey. So we're looking at the assumptions used by your actuaries as well as compare them to some outside sources that generally see how they benchmark. So we look at the assumptions. And what the assumptions are used, you have economic assumptions that are tried to use to project out based on our pension plan and your participants when will they receive benefits, what the timing of those payments would be, what form of benefits would be provided. So that we can discount back to create a liability or that your actuaries do that for you. So that these assumptions will impact the timing of the cost of the plan and the value of the benefits as measured on each evaluation date. I think we're on the results page, the next page has the kind of statutory requirements. We looked through whether the actuary was in compliance with the -- each actuary was in compliance with the Texas code and the pension review board guidelines. We didn't see any issues there. We had noted that the plans were valuing and all the benefits that were provided that it's meeting all the pension review board guidelines. We have also looked at the -- I'm sorry, the way that the evaluations are put together. We didn't have any issues that we saw in there. The next one would be on the results of the report contents. The contents of the actual report generally -- are

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following actuarial standards so it's describing the plan, describing the assumptions made and it touches on the funding status of the plan so the measure of liability and the annual contribution amounts that were determined. I think I'll turn it over to Jim to talk about the economic assumptions. >> Thank you for having me here today. I'm going to talk a little bit about some of the individual assumptions, economic and demographic. Economic is more things like inflation, discount rate, things that have an economic basis. Demographic is sort of participate based assumptions on people retire, when people

rminate. So looking over the economic assumptions, the first one we looked at was inflation rate. And while inflation rate is not explicitly used in the valuation, it's a building block for other assumptions like wage growth and discount rate. So for the inflation rate we look historically and prospectively at a couple of approximate assumptions. Over a 20 to 40 year horizon it's ranged from two percent to three and a half percent and then we looked at prospectively at treasury inflated bonds. They're spread to treasury bonds. That sort of gives you some perspective on future inflation. The spread between tips and treasury bonds tend to understate what future inflation is and have historically been within 50 to 100 basis points. So when we look at these measures and were the three plans all have different inflation rates range it 2.75 to three and a half. We found them all within the standards and what has been historically within union AFL what the future expectations are. The only thing of note is we did notice with the fire system that the inflation rate of three and a half was higher than the general wage inflation of three, which is unusual. Usually we see general wage inflation higher than inflation, price inflation.

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Moving on I'll talk about the investment return assumptions. So this is always an important assumption because it's based on how the liabilities discounted and the interest rate used to discount the liabilities. We look at a do you mean ever couple of things. More importantly we look at the capital market assumptions. We use a horizon survey that looks at 36 different investment advisors and they're look at different asset classes. We also compare to the nasa survey and your discount should really be what your expected asset allocations are and when you're comparing to other systems their allocations might be different so it may be appropriate deviate from what the surveys say. So we focus more on the capital market assumptions and what they tell us and what your investment policy is. Looking at police had a 7.7% discount rate. Our prospective return from the horizon survey and our expectation that was lower than what was used for the police plan was 7.25%. We look at a percentile range to see if it's within a reasonable range. Weike anything between the 35th and 65th percentile and this was under the 65th percentile, which was well within our range of reasonableness. Same for the city plan for the employees plan. It was actually rate at T median -- our median was 7.51 and the plan was using 7 and a half. And fire again was a little higher than our median of around 7.6%, but the 50th percentile -- was within the 65th percentile, so certainly within our tolerance. 55th percentile. Next we looked at salary increases. There's two types of salary increases we look at. We look at total payroll, the payroll for the system, so they'll packets how you are as a size and whether you're growing as a

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affair salary increase itself looks at individuals and how individuals progress individuals tend to progress higher than what you might see in your contract rates because people get promoted adds they go through, merit raises. So it's a building block from inflation, your contract scale and then some level of promotion and productivity. All were based on -- looking at all of the wage assumptions and the

contract rates and the salary scales, all sort of graded down from high salary increases at lower years of service to much -- to lower ones as people progressed in their service. At typical for what we see, especially for police and fire plans. Everything looked in line with what the underlying wage assumptions were and the contract rates. The only assumption that we thought was worthy of further review might have been the first yr assumption for police because it was two and a half% was the increase where the contract rate would say it was 12. If you add three percent inflation to that it would be 15. So we didn't think it was wrong, we just thought it was worthy of just giving a closer look and understand there's a study underway to look at those assumptions. So that should just be verified with that study. Next we look at administrative of expenses. So plans generally and actuaries handle administrative EXPEN two ways. One they either net it out from the investment return assumption that we talked about earlier or they have an explicit assumption that's added to have a contribution in addition to at wwh call the normal cost, increasing the contribution amount with the per Ed expenses. And these assumptions were spot on from what we saw historically. Aprs was about 20 basis points was the assumption out of the expected return. And we looked at about a five-six year history and that's what we saw. Fire was about seven basis

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point and again historically that's what we saw the expenses to be. D the employee plan used an explicit assumption that was added to the contribution. And it was right in line with our three, five and seven year average of expenses. Next we move payroll and cost of living increase. Again here this was an interesting assumption. Police was four percent. And again, this is overall payroll, so expectation of growth in these organizations. So if you expect to add people to the rolls and not a steady state, you would have a higher assumption. You know, we look back at the growth in the city for 20 years and I think the average payroll growth was over five percent as it's been a growing city I graduated from UT in '89 and coming here it's a much different city than when I was here in school. So not surprising. We looked at recent history. For the police plan over the last seven to nine years we saw an increase more around three, three and a half percent, but that was heavily influenced by a negative payroll growth in '17 and there was some actuarial transition there so we think there might have been some incentive that maybe that happened based on what we were looking at. but before that increase was three and a half to four percent so four and a half seemed consistent. The employees plan looking at a 20 year history it's been over five percent, so four percent seemed reasonable. Fire, the recent history was closer to two and a half percent, but you have to look at expected growth, which is expected to be over the next 10 or so years. And then we looked at cost of living increase. Police did not have a cola in there. Fire did not have a cola assumption either. We did notice that the fire plan has given a cost of living increase five of the six years but we will note the six years prior to that there was no cost of living

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increase given so we just recommend that that assumption just get further looked at to see if there are expected cost of living increases in the future that they be -- that may be little cost of living increase be added to that plan. And then demographic assumptions. So this is things like when we expect people to retire, whether they become disabled, when they terminate. Everybody's favorite topic, mortality. So we compared these to experience studies for the employees plan and the fire plan. An experience study is just a study where we look historically at what has happened with assumptions and see if they are consistent with what we were assuming. Everything seemed in line with what the studies indicated. We understand a study is close to being completed for the police plan, but even looking at the history and what the actual experience was in the plan over the last valuations compared to the assumptions were it was well within ranges of what we would expect. The only comment we would make, which I'm sure your actuaries will recommend to the plan is the society of actuaries released new public sector mortality tables so they did a study on mortality specific to public plans which has never been done before. They were done in sort of three groups, teachers, public employees and public safety, which includes police and fire. Not surprisingly, police and fire noted live as long as the rest and teachers lived the longest, so it's good to be a teacher, you should live a long time. We recommend you look at the plans that you might incorporate those new mortality tables into the future. And then actuarial methods. Here we just look at methods and really what the methods do is determine when the

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contribution is paid not how much, but when. It allocates do you PAYE now or may we later? The method is to ensure that we have some level cost method, either a level dollar or level percent of pay. I would say 90% of plans focus on a level of pay contribution. We looked at the actuarial methods that you use and they're in line with what the status requires and they're in line with what we would expect and what most public plans use. And then just to sum up, all we would say severing, all these assumptions look good to us. There was a couple we think, you know, maybe should just be given some scrutiny in the future just to make sure they're consistent with what's actually happening within the city but everything looked good to us. And that's our report. >> Alter: Thank you. As I understand it, what we have before us is the actuarial audit which comes every five years. It's not the same thing as our annual report from the different pensions so you're really facing in on the assumptions that are underlying how we have constructed our pensions and the information that we're reporting back. We do have the Ed's here, so I think any question we can get answered here, but in terms of the focus is really on those assumptions. This will go to council in May according to what they have to do with the statute. And I think June we'll hear the annual reports or is it in May? >> Councilmember, we'll look at the schedule and if we can do it in May we'll do it, but no later than June we'll come back with an annual report on a three pension systems. >> Alter: Thank you. Colleagues, do you have questions? Councilmember pool. >> Pool: Thanks for being here and making this presentation. This is really a really good presentation, it's very helpful as well. I happen to be a trustee on

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the employees retirement system board and know how difficult it is to adjust the assumptions. I'm looking at page 8. Getting us down to 7.5 '17 was difficult, but ultimately a successful endeavor for the trustees. We did a lot of work digging into the information and trying to figure out what would be the best approach recognizing the need to move down from -- I think we were closer to eight percent so I'm curious about the fire and the police being still up closer to eight percent than further down. My understanding is given the markets and the returns on funds and so forth and the risks that we take carefully, that we really need to be somewhere lower than the 7.5. Do you all have any opinion about that? Maybe I can ask our police or fire folks about the work they may be doing on that front? >> We can say that the period that we looked at, that ended in 2017, and as mentioned the capital market assumptions that we use as benchmarks, it was nine percent at that time. So we expect going forward you will continue to do that analysis and you may decide to move down lower, depending on investment policies in your investment mix going forward on each plan >> Pool: Right. So is that something that fire or police could comment on? Is that something that's in the -- Teed up? Oh, yes, please, come to one of the mics. Introduce yourselves. >> >>Atty Featherstone, assistant director of the fire police system. I've only been in this

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system several years, but even before I came the board had set a goal to come to 7.5 actually. And we would be there now except that we changed actuaries. We did an RFP at the beginning of last year so we have a new actuary in place. There is an experience study underway now and they have just concluded that and reported their findings and recommendations to the board that was referred to an actuarial committee that's doing its due diligence and it will come before the board in May for them to consider new assumptions to do our next valuation, which will be as of data 12-31-18. And the valuation will be available in July. So yes, they're very seriously looking at all the assumptions. And our new actuary really, their philosophy and approach has mirrored what's been revealed in the Bolton report. >> Pool: Thank you. And fire? >> Bill [indiscernible], administrator for the Austin firefighters pension fund. We too are looking at -- we've lowered our rate from eight percent several times down to 7.7. We'll continue to look and have conversations with our actuary as we have actuarial gains. Right now they say that they're okay with that, but we're going to try to work toward a 7.5. That's kind of a target for us. >> Pool: And I recognize the volatility of the markets currently. I just wanted to check in with everybody and thank you for the really good work everybody is doing. I think the fact that the city of Austin has three really solid and positive pension funds is a credit both to the oversight that you all bring to the issues and also to the trustees who sit and make those really difficult decisions and carefully parse through all of the details and try to get as well informed as possible on the financial markets as we can, knowing that we're not really the professionals in that area, you guys are. And I also wanted to give a

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out sht to the folks who are here. I see Chris Hanson, the executive director TRE too, and I want to thank H D his staff for the work they're doing for keeping the employees retement system in positive territory as well. So thank you all for being here today. >> Thank you. >> Alter: Councilmember tovo, did you have any questions? Okay. En I have couple of questions. I'm not sure which of yous best -- in the best position to answer them. So on slide 5 we talk about the amortization, the number of years for that. And the state board is suggesting 10 to 25 years, but not more than 30 years with eight-year phase-in. And we have a least two of ours that are not in the recommended range. And I understand THA the fire board had gone through some changes to get into that range, but I'm justing for us as a city. >> I don't know that the -- sort of the funded status really wasn't part of our review. We were really more focused on the assumptions. But I think the big impact of assumptions and how you put them in there is more around when you pay the money, whether you pay it now, pay it later and the goal there is to make sure that you can sort of level it out. >> Also the ctribonions are a fixed rate and the actuarial evaluation helps to decide whether that rate is sufficient. So when we're looking at the methods to determine the actuarial work separate from the establishment of the xedfiindiscernible].

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>> Christopher Hanson, the executive director of the city of Austin employees retirement sysm. Councilmember, to answer your question, the funding period established by the pension review board is currently 30 years as a maximum amortization thatblished in 2017 with an eight-year phase in. The city of Austin employees retirement system currently at 30 years. Ou new valuation is expected to push us up to 32 when it's adopted by the board. But the board is currently reviewing the available methods to improve that amortization. Our board has adopt a funding policy, which is a best practice for public retirement systems that sets a maximum target of 55 years. So we're not meeting our board's 'expectations of 25 years. Ov the last 18 months the board has been reviewing available options both on contributions, benefits and investment income and expenses as the four key components to planned funding as a way to try to impreov the amortization period. I think you and I spoke last year about this. That work continues. I'd be happy to do a more in-depth dive with you on where we stand. It's probably longer than is available right now. But just to let you know, this is a main topic for the board this year. We're reviewing our funding policy, reviewing what steps can be Tak and we want to be able to D it in coordination with the city to make sure that any decisions that are made are done collectivel with the thought in mind of the total workforce and compensation here. But that is something that is at the forefront of what the board is working on. >> Alter: I don't know if ear people want to dive into it as much as I might, so we can take that offlinend can continue that conversation. I'm curious what the executive directors are going to take from the recommendation, so overall it seems to be a very positive report, but there are still some recommendations of things that could be changed. So can you speak to you're going to take these recommendations and work with your boards moving

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forward? >> If can catch you up with our schedule. And it is our top priority this year and probably follow some time to come. I'm glad to report that when we changed auaries I think we began getting better information so we've got to walk through the steps. So the experience study is the first main thing and the next valuation based on anyssumption changes is the next step. And then the board will really have good information to know what needs to happen, plan changes, Fu ING, what needs to hao T get the system to berle actuarialound sss. It will take awhile. We embraced the Bolton report. It is what our actuary has told the board. The board actually saw this and started heading in a better direction even before I got there. So it is really our main focus. When the board has the results of the valuation, which will be in July, then we hope to and plan to work as a strong partner with our plan sponsor, the city, and talk through various options that can get us in a better funding position. That's the plan. It's going to be a process. It's going to take awhile. And I'm glad that we have three of our trees in the room? Trustees in the room. Restriction councilmembers, yeah, so in line with what police says, we will be conducting our next experience study later this year and so much of what is outlined in the Bolton report as summaries or recommendations we've already incorporated in our last actuarial value at was presented to our board last month and we would be looking at in our next actuarialtudy Sater this year. So fortance, the inflatio rate that we currently use, the board will be reviewing that, receive recommendations fro our consulting actuaries while staff in looking at theeriexpe study results. That impacts the discount rate. Mortality as well. I think that's something that over the last three

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expeceritudies we've made improvements to the mortality table, which again you do the experience study periodically enough to make sure that you keep your assumptions in line with your plan experience. City of Austin employees rementreystem will continue to do that. If TRE are changes to those assumptions that affect the plan funding we want to work as mentioned from theolice system, with our plan sponsor to ensure that everybody is in step with what needs to be done to make sure our retirement system is sustainable for city employees. >> And for the firefighters pension fund, we too appreciate the work that Bolton did. It's always good to have a second set of eyes on your pension fund. We do plan to adopt the public safety mortality table and also the reporting requirements for aesop 51. That will be incorporated in our next study. Also we're going to take a closer look at the three and a half% economication assumption. They made -- there was some reference that that might be a little bit on the high side and we are going T continue having discussions on that. We have in the past. And we'll continue with that going forward. >> Alter: Thank you. On page nine it talks about the wage assumptions and we have new public safety contracts. In what sense were those incorporated into the assumptions? >> The assumion that was used in the last two valuations did not change and was not reflective of the work that happened on the contract in '17 or '18. So we're still looking back in our curnt experience study to know where we stand in relation to what is reality. >> Alter: So moving forward you would be incorporating since we actually know what those contracts are saying, you would be incorporating those, but at the time these inceptions were made we didn't have the contract result. >> Yes, ma'am. >> Alter: That's helpful. So I just want to reiterate what councilmember pool said. We are very fortunate as a studio have all three O our pension systems to be sound. There are other cities around the country that are

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really struggling with this issue. And while it is our responsibility as audit and finance and that is the goal of looking at this actuarial audit is to make sure that we fine tune so that we can ay in that area. Overall what I'mngri from the actuarial audit is that all is well. There's some fine tuning that we can do, but that we should remember that the city isel wl run and that we are on of our pension liabilities in a way that would be the envy of other cities at this point in time. So thank you. So before take up the annual financial report and the single audit, number 4, I'm just going to ask for a motion to postpone the minutes. They were not posted in time for folks to review. Councilmember pool motions to postpone. It secondedy councilmember tovo. We'll have those available before the next meeting, both for this meeting and the next meeting. And in timeor folks to review them. So I think this computer went off because it was beeping. So if somebody signs up to speak you can flag it for me that would be great. So itenumber 4 is the comprehensive annual financial report and the fiscal year single audit report. The last one is about our federal grants. And I will let you guys take it from here. Thank you. >> Good morning,uncicoembers. I'm Kim Uresti, deputy controller and, I'm her with Tracy Cooley and Jane chin from deloitte, the city's external auditors. We are here to present the 2018 city of Austin comprehensive annual financial report and the 2018 single audit. You will receive your copies of the reports in the next

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couple of weeks. >> However, they are available online and have been for over a month. >> Can we have those on the audit and finance website? >> Yes, ma'am, we certainly will. >> So the comprehensive annual fcial report was issued February 28th, 2019 and it is available online at Austin finance online. This year we chose the Austin public library for our cover pages. The library opened in October of 2017 and it was 18 years in the making. Since it's been open has won and bn recognized for several awards, including the 2018 time magazine list of world's greatest places. And we want to THA the library for allowing us to usehe T pictures for our cove the controller's office is responsible for preparation of the car. Our office works closely with deloitte to obtain an independent audit of this report. There are several audit requirements that have to be met in order to be in compliance. The first one being an independent audit. Deloitte isn independent certied ifdit public accounting firm and they are in the first year of a five-year contract. We have to issue within six months of fiscal year end. This year we issued on febrryuah, which was five months after fiscal year end. We also have to present within 60 days of issuance so we're here today on April 17th, which is 48 days after we issued the cr. The single audit was issued on April 4th, 2019. And it covers the compliance of federal and state grant requirements.

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An entity that receives over \$750,000 annually in federal or state grant Edwards is required to complete a single -- awards is reqd to complete a single audit. Is focuses on grant compliance and it has to be issued within nine months of fiscal year end. Which is June 30th. I would like to thank the mayor and councilmembers for your continued support of have reaching the city's goal of excellence and financial management. The city manager and the executive team, the chief financial officer and department directors for their continued support of the city controller's office. Also I would like T thank city staff, especially the staff in the controller's office for their hours of dedicated service toward the completion of this report. I would like to thank deloitte for their professional and thorough manner in which they conducted the audits. >> Good morning, my name is Tracy Cooley and I'm the managing director responsible for things that we provide to the city. I have with me Jan chin and also Blake Rogers, a partner who actually did the work on the compliance side of the audit. But Jane and I will present the results of our audit. As we go through if there are questions just stop us as we move along, but we'll go ahead and' dive in. I can't read it from here. I think it's slide number 3 or 4. Slide number 3 is our audit scope. So we performed an audit on the car, which is the comprehensive annual financial report for fiscal year '18 and we conduct our audit in accordance with government auditing standards. As part of the audit we issued an unmodified or a clean opinion on the financial statements. As Kim said this was February 28th, which was the earliest that we've ever issued the car for as long as I've been here, which is great. In our car, in the opinion of the car, we include what we call an emphasis of matter paragraph. And this is really to highlight or clarify

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something, event or something that would have happened in the current year. What we note understand our opinion is that the city adopted government counting standards, board atement number 75, which relates to other post-employment benefits. So it' obep for short and it's retiree health care. So they changed the accounting and financial accounting for opeb. The city implemented those changes. It's outlined in the otnotes of the financial statements. Because of the implementation, they had to restate the beginning balances to form with the new statement are, so that restatement and the before and after of the adoption of the standard is included in footnote 18 heofafr. Just as a note as well, the only services thateloitte provides for the city will be covered in this presentation. So it's just the audit and test work that we do. We don't perform any other services for they so we reinma independent as far as between the city and ittelo as a firm. Continuing on, the responsibilities for our audit approach and our aitud standards was outlined in our contract and also our engagement letter. And at the beginning of any audiet develop an audit pl we identify what we think the risks are going to be. The risk we identified this year for the city's audit relates T management override of controls. To be clear, this is a risk we have in any audit we do. City is no different than any other audit client. And really what we're talking about here, does management have the ability to override controls as it relates to financial reporting to present something in the financials that I factual or fraudulent. So we do E a bit of work looking at significantstimat, if there are any unusual transactions, we'll look at that. We do what we call a journal entry testing. So a journal entry is a change to the official books and cords, and there should be a proto in place. There should be a reviewer who is knowledgeable of a

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manner. There should be a journaltry that is more knowledgeable of the subject matter. So we do a sampling of the journal entries to make sure that we were properly posted, properly approved and they were accurate once with gap. So that -- the other thing that we do is we talked to many of you in this room just to ask about where do you think the risks are when you think about financial reporting? And then we develop our audit plan accordingly. So with all of the tests we've done on that particular risk, we didn't note any issues or any findings to report to the committee. And then last thing on our audit scope, there are two organizations that are included in the car. One is the utility a Bergstrom land host enterprises and the other is the land surprises. These are audited by other auditors. In the report, the opinion that we have on cast, we state that we rely on the other auditors. We don't reaudit their work. So we state that we do rely on their audits and those amounts are included in the car as is. >> Alter: Excuse me for one second. Do those audits also have to come to audit and finance? >> The requirement for them to come to the audit committee. But there's no prohibition that we bring them forward. >> Alter: I think we should see those as well at some point. >> Okay. >> Alter: Thank you. >> So our opinion just states such, that we relied on the other auditors. So that I will turn it over to Jane and let her walk through additional items in the presentation. >> All right. We also would like to note that included in the city's car it's what's called unaudited or other information. As auditors read such information and we noted no material inconsistencies. On slide 7 and 8, we detail out certain matters that are required to be communicated to you with a performance of an audit. So in the first bullet on slide 7 we discuss the auditor's responsibilities under governmental auditing standards, gas, as well as

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generally accepted auditing standards, gas. And our responsibilities to these standards include forming and expressing opinion about whether the financial statements are presented fairly and all material facts in conformity with generally accepted accounting principles. Although we performed the audit, we would like to remind you the audit of the financial statements does not relieve management or the audit and finance committee of your responsibilities. On slide 8 we emphasize that the procedures that we selected as part of performing our audit depend on our judgment and this includes the assessment of the risks of material misstatement of the financial statements. So in making those risk assessments to design our audit procedures, we have internal controls over financial reporting, however we would like to note that this was not done for the purpose of expressing an opinion on the effectiveness of the city's internal controls. And two, since the audit was not designed to identify all deficiencies of the city's internal controls. So if you would like to refer to appendix C lists the definition of such deficiencies. On slide 9 you will note that the significant -- city's significant accounting policies are noted in note 1 of the car. We're not aware of any significant changes in such accounting policies except for the adoption of GASB 75, which -- GASB 25 that she talked about earlier. We have the financial disclosures and concluded that they were appropriate, adequately disclosed and done by management. The topic of accounting estimates, the bottom of slide 10 lists those that we deem to be significant accounting estimates. There is no change. We also noted that there are no significant audit adjustments within these areas. So if you would like to

have more detailed assessment, look at our detailed assessment, please refer to appendix a. Moving to slide 11, we want

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to remind you that our audit was designed to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement. So there are no past disclosures and appendix B lists out uncorrected misstatements that were presented to management during the year. These uncorrected misstatements were determined by management to be material both individually and in the aggregate. And slide 12 is just more informational. It kind of states the gas statements that management will be assessing in the upcoming years. Though it's a little bit ways out, the gas statement is a hot topic these days and it could be impactful statement to many entities, so Deloitte has actually posted several learning sessions that management was able to attend earlier this year. And finally, in slide 13 we want to remind you that similar to previous years, we requested that management provide us with a list of written representations. And a copy of such written representations has been included as appendix D in your packet. So that concludes the financial car audit and I'll hand it back to Tracy to talk about the single audit. >> Alter: Do you have any questions about that? So bottom line is that we have a clean report and we're following the procedures and the proper controls are in place and there were no red flags of note. >> Right. We didn't have any material audit adjustments that had to be reflected in the car. Nor did we have any significant findings related to the financial states to bring to the committee. >> Alter: Great. Thank you. >> Just to wrap up, when we talk about single audit, Kim covered exactly what it is, we talk about single audits, it's federal and state program audits. I'll flip to the next slide. The results of our audits as it relates to single audit both for the federal and state we issue an opinion on compliance for major programs and also controls over compliance and in both cases, federal

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or state, we issued unmodified or clean opinions as it relates to compliance and we also did have any findings to report it relates to single audit. I've been involved with the city for a number of years and this is the first year that I've been here that we haven't had findings to bring to the committee as it relates to the program audit. So I think that's definitely a step in the right direction. And then on the passenger facility charges, this is another compliance report that we issue. And it really just simply relates to how the city is spending PFC amounts collected by the airport. The city chooses to use it to pay down debt. We have to look at the compliance of that and issue a report on that. It's an unmodified or clean opinion on that report as well, no reported findings. And lastly, we do an agreed upon procedures report that is required by the city to submit and there were no issues with that report either. >> Alter: So those reports, that one for the airport you do, even though you don't do the car for the airport, you're doing that other report? >> Yes, there is no stand-alone car for the airport. All the airport activity is included in the overall city CAFR, but this is required by F.A.A. Any time you are spending PFC funds they like to know how you're spending it and to have audits and controls over the spend. So that's

what we do specifically for those funds. >> Alter:ou basically incorporated the audit that the airport and the convention center did ion your audit so it's included in that way in the car. You J didt redo what they did but there is a separate audit that exists for both of those as well? >> So now I understand your question.so when we were talking about the reports that we do in ait, there is an -- I don't know what the right word is. Just a small component unit that relates to Austin land host enterprises and that specifically relates to the hotel at the airport, the Hilton. So there's an arrangement th theat city has with that organization. That particular operation we don't audit. Theverall airport operations are included in

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the car. >> Alter: And then with the convention center. >> I would add that all of our enterprise funds are covered in their comprehensive annual financial report that they audit. The Austin energy enterprise, Austin water andrpor are our three major enterprise funds that they report as separate columns. But they do look at more detail on those than some of our other enterprise funds. But they're all included in the audit. The test of internal controls and passes for accounting cover corporate, citywide. So it encompasses all of the enterprise funds, all the general fund departments and that sort of thing. >> Alter:o we he went back Ta to that other sheet, the part that doesn't impact is the Hilton. -- >> It's just the hotel operation. >> Alter: What is it for the convention center? >> Same thing. It's the Hilton hotel downtown. >> Alter: Okay. So maybe you can just share us the links and we don't need to have those come back to council or to audit and finance so that we can review them and see if there's anything that we want to raise our ask questions. >> I'll set up one on ones with you on those and walk you through them. >> Alter: Okay, thank you. Any questions on the single audit? Councilmember pool? >> Pool: I'll just make one note. I'm looking at your appendix a, significant suggestions and adjustments. This is where you he looked at the pension benefit plan and it looks like you have found similar to what the previous presentation was, that management's methodology and resulting amounts were deemed reasonable. So I suppose that was within the best practices and the confines of what you look fo for the various amortizations and schul?es >> Yes. To test the pension and opeb funds, we involve deloitte

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actuaries T look at the -- actuar helpful. We ask them to look at the assumptions made by the plan actuaries. As part of our audit they lookthe reasonableness of those assumptions. We do audit in the context of materiality. So there is that. But yes, we do look at these assus.onmp >> Pool: Great, thanks. >> Alter: Can you speak a little bit to the gas statement number 87 on leases and what's going to change with that? Because we're about to get an audit on leases in the city. And I'm curious what that changes. >> Sure. This is Diana Thomas, I'm the city controller. The leases standard is comp and it will be responsible -- the city will be responsible for pleminting it in fiscal year 2021. What it will entail is us gathg a lot of information from city departments on things that maor may not have been considered leases in the past, but may be considered leases in the future or borrowings. It works both on when

we're the lessee and we're the lessor. So we will begin the process this summer of working with departments and gathering all of the information that we have. We'll also include in our processes ways to look at as new items come up that those items get added to our list. And it requires special actingun treatment. Recording of certain assets and liabilities then will be amortized and created over time. >> Alter: Did you have question? >> I just wanted to comment that this work will dovetail with that inventory of leases that the office of real este is working on. So they he bavn asked to work with the controller's office so that the two lists reflect the same information. >> Thank you. So in conclusion on the single audit, we have no findings, which shows a lot of improvement over the last several rules, which suggests that we are in compliance from the sample that you looked at at least with our federal and state grants, so tnk you for

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your work on this auditnd a thank you to our fincial staff and the folks responsible for making sure that we do come out with a clean slate on these things. It's reallymportant that the city demonstrate our sound financial footing so thank you very much. >> Thanyou. >> Council member tovo? >> Tovo: I move that we accept the audit. >> I'm not sure that -- >> Tovo: No, we don't need to? >> Alter: Okay, we can. We'll accept the audit. We'll accept both audits unanimously. Great. Thank you. So we will now move to item 5, which is -- relates to the appointments to the municipal service commission. >> All right. Good mor, council members. My name is silva Everett municipal services administrator. >> And I'm Stephanie hall with the city clerk's office. >> Today we'll be going over a little bit of background and the roles of our mcs commission members as well as reviewing their terms and a current unexpirederm that we have. This may sound familiar because we were before you recently in February, so I apologize if it's repetibut as you know article 9 of the city charter was approved by voters in November of 2012 and that estshed - >> Alter: I think we just had the history, I think, at the last meeting, so if you want to -- >> You're good? >> Alter: Skip ahead. >> Absolutely. >> Alter: Posted, so we all went through the process of appointment last year. >> Okay. >> Alter: So I think we can jump to what's before us, thank you. >> On slide 5 we have a snapshot of our commission members and terms. There you'll see we have a

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commission member who recently resigned, which leaves U with an unexpired term that would be vacant until may 9 of 2021, so we're here before you today to discuss that unexpired term and I'll hand it over to Stephanie to discuss that process. >> And just a brief overview of the recruitment. We're planning to go ahead and post this as an open call. An do that for 30 days or less. The office of the cy citrk will collect those applications like we do all the boards and commissions application and indicate of the special qualifications. And then the appointment process is very similar. The office of the city clerk will accept and review tho applications, we'll compile them for you, we'll identify -- make sure all the qualifications are met and we'll provide those applications to council offices indicating a ones that have the criteria selected. And then that will be reviewed by the audit and finance mmitcoe, and there is the

option to just review those applications and select someone or you may hold interviews and discuss that with them as well. And then all those appointments will be presented to city council for a majority vote. That's kind of what we want to check in with you what W B the next steps, what you would like to do. Next steps here which would be post solicitation, then we can review those applications and go forward to the appointment. Here's two potential timelines, depending on what you would like to do. Option 1 is if W review applications only, because I know we have kind of a tight turnaround here. So we could have the open call issue in a couple days, so that would be open until about May 17. Then on May 29 in your next meeting we could review those applications and select a recommendation for new commissioner then present that in the June 20 council. It's possible we could present that as well the June 6 council, if we could do that as quickly. Then the option 2 would be to include interviews, and this would just require that we have a special called meeting to first review the applications, select those candidates and then on May 29 have the interviews. And then the only other thing we wanted to discuss with you as well is see if we could establish kind of a precedent for the future if

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or when we have other vacancies or resignations, what would you like us to do? Should we go ahead and issue the call immediately and proceed there or would we have a case-by-case basis? And I think that concludes our little presentation: >> Alter: Council member pool? >> Pool: In answer to your last question, Stephanie, about -- about how we'd like to proceed -- >> Yes. L: Oh in the future, I guess I would like to suggest to colleagues here that what we do is last time when we had sitting commissioners up for reappointment, we reviewed their work and were satisfied and we did not need to extend the process. We simply agreed that we would continue them for a new term, because there wasn't any compelling reason not to. >> Yeah. >> P and: Think that worked pretty well. I like -- I'd like my colleagues to kind of weigh in. The difference, of course, is if we have a vacancy, and I would tend to come down on wanting to interview, but again, I'm open for input from my colleagues here. >> Alter: Council member too? >> Tovo: I like making it automatic so that if a vacancy becomes available you automatically issue a solicitation so we can begin that process and don't have a delay. I agree, I think this is what I heard you say -- I agree that if we -- that with this one, likely we should interview candidates. That would be my preference, and with regard to continuing them or not, I think that -- I liked the process that we did last time, but I feel like W should have a check-in on that as those positions come up for renewal and just determine at that time whether we want to just review them or -- I guess we would need to anyway. In any case we'd have to come together and make that decision of whether or not we're going to interview them or reopen.

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>> Alter: I agree with that. I'm not sure that I agree with the timetable given what we have on our May calendar. I don't think that we'll have time to do interviews and a full audit meeting. We have several big audits coming back. >> Sure. >> Ain M: In executive session that's already set for that. So I think we

might need to do a special called meeting. I think this would be done in executive session for reviewing the applicants and for -- and then for the interviews, so I think we'll have T put our calendars together and find those times, because I don't think, unless we want to set a three-hour meeting on the 29th, I don't think we'll have time for interviews. Council member pool? >> Pool: I think how we handled the interviews priously was we did have a special called meeting and it was specifically for that executive session, so we started the meeting here and recessed and then came back and indicated what our -- what our findings were. I might suggest if we're going tokoo at our calendars, and mbeay we kind of work through Corey's staff to get that figured out, but maybe a Friday. I think -- I'm trying to remember wt day of the week it was that we did that prevusly, but anyway, we ok and see. In may, let's see. A Friday in may, if -- for interviews, if we can, yeah. >> Alter: Council member tovo. >> Tovo: Yeah, I'm not sure about the Friday, but and council chair, youay H me suggested a different plan, but it seems like if we -- if we've reviewed the applicants in advance coming together in executive session, we usually can do that relatively quickly, determine who we're interviewing, so it's possible to add that on to the may meeting, I would suggest that we try to do that, that we come -- we all indicate our ranking of T applicants and we use that

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time I executive session during an audit and finance meeting to just very quickly identify whoe're going to interview and have a special called meeting for the interviews. M not sure if that's different from what youere suggesting or the same. >> I think we can do THA we'll need to add at least another half hour on to the meetings just to make sure we have enough time to cover, but that's probably easier than -- >> Tovo: Yeah, I think if it's taking us more than 15 mis -- >> It probably won't but I would be comfortable wh itthat if we added a half an hour time slot, and so maybe, Corey, you could make sure that everyone has on their calendar an additional half hour for the audit a finance meeting in may. >> Absolutely. >> Alter: And then we can look for another day to do the interviews. And in Jun I can do Fridays ersihan I can in may. >> Pool: I think that sounds great if we can -- we should know after weook L at the applications how many people we want to interview and how much time it will take and then we can kind set a date at that point. I think that sounds great. And then will you guys do -- will staff do a bit of an assessment and a culling of the applications take sure that people that are -- that all of those who are sent to us have the qualifications? Okay. That would be helpful. >> Yes, absolutely. >> Alter: Do we need an official motion to dohat or is that a discussion process? >> I think an official motion is always helpful, for us to have -- >> Alter: Motion to move as discussed. >> Pool: Well, and that's a good idea to kind of revisit what we just agreed to. Let me give it a try. So we have -- we are going to direct staff automatically to go to a 30-day open call solicitation whenever position becomes open.

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Clerk office reviews applic andnscreens for minimum qualifications. Since this is an open position audit and finance will review the applications and decide if we're going to select some individuals for optional

interviews. It looks like we will do that in May during a regularly scheduled audit and finance committee meeting. We will at that point determine how many interviews we will hold and then we will also at that point decide what the date is for that special called meeting, and it's likely to be in June. And then we'll make a recommendation, and I guess that would mean council appointment would happen sometime before the end of June, assuming the timing works. >> Lter: And I would make two modifications. We will extend the audit and finance meeting by half an hour so we can have the executive session to review applicants, and we should set the date for the interview well in advance for those on our calendar, not set in the 29th, that can be set for June and whoever is the appropriate staff member can work with our offices to find that time and the amount of time may vary depending on the number of applicants that we have. Last time I don't think we had a huge number of applicants. Anything to add? >> Tovo: Just one question. Does that put the municipal civil service in a bind? Has commissioner Murphy resigned effective immediately or is he holding over until someone is replaced? >> His resignation was immediate. We have not been in a bind yet but we do have a fairly full docket coming up. We have 14 appeals scheduled currently, approximately two a month. >> Tovo: Okay. So we would get a commissioner in place, it sounds like, probably not before July. >> Yeah. >> Tovo: So we would have to really make sure that we get that commissioner appointed in June. Otherwise we would be

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looking at August. So -- okay. Thanks. >> Alter: Do you think anything else from us on -- >> [Inaudible] >> Alter: We need to vote. We have a motion. Did you second? >> Tovo: Yes. >> A: Tovo seconded. Everyone in favor? >> Yes. >> Alter: Unanimous. Great. Thank you. >> Thank you. >> Alter: So we will now move on to our capital project delivery update. -- audit update. >> Morning. >> Good morning. >> Good morning. >> My name is Jorge Morales. I'm the director of public works and I'm over capital delivery groups in public works. So today here we're here to give you an update on the audit that was done in 2017 and I'd like to let her introduce herself as well. >> I'm Cynthia Gonzales. I'm the deputy officer of the capital contracting office. Our office is responsible for procurement -- excuse me, and contract management service for capital projects across the city, and because of our common missions we work really closely with public works department. >> So quickly an overview of the audit of 2017. The audit objective was to determine if the city's effective and coordinating capital projects to meet the identified needs. The audit started with public works and didn't incorporate capital -- incorporated capital contract as we move through it. The auditor provided six recommendations to design containing cost and ensure the quality of capital projects, so today we're going to go over their

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items and give you an update of where we're at. As far as public works, it provides public management construction services for capital projects throughout the city, but as discussed I think the meeting in November, we don't do every project. So the audit did focus on the public works projects. On the first finding, I'll read it and then I'll just give a high level of what we've done. First finding -- >> Alter: Excuse

me, do we have it of this presentation available? >> We did not print copies. >> Alter: Okay. Thank you. >> I apologize for that. So item 1 was review, update as necessary and enforce the quality management division's quality management process to focus on risk-based reviews. The director directed to ensure that the division has sufficient resources allocated to meet departmental needs and expectations. Since the audit was completed, we did do some updates to the process using a risk-based approach as recommended, and in 2018 we did put out a memo with the changes we produced -- we produced a training session for project managers as well for the sponsoring departments to roll out those changes. In addition, one of the recommendations was based on the workload the quality management team had. We have since added two FTEs that were funded through FY '19 and one position has been filled and the other is in the process of being filled. The updates we've done, we're actually monitoring because we want to see changes we did based on risk-based that they're effective. So we'll continue to monitor the data to make sure that it's produced a benefit to us. Item 2 was to work in conjunction with the capital contracting office to review update and as necessary enforce risk-based change order process that is realistic for project needs, and protect the -- protect the city from unnecessary costs. This process we actually started and completed as

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well also, so we went through a thorough process improvement that included not only capital contracting but we also had other departments that were part of this process, and Cynthia actually led that process. We finished the process by improving some of the forms on the change order itself in addition to change control committee procedures. Those changes were incorporated into the project manager's manual, so the procedures were updated and training was provided both to project managers as well as to capital contracting office staff. For FY '19 we're in the process right now of taking that recommendation a bit further and seeing if we can automate the process to reduce paperwork. That will also enhance the efficiencies as we continue to track each step in a digital format. >> One of the main goals was to basically decrease the amount of time it took to approve a change order so that the contractors could have the contractors begin working faster, so we did considerably change the amount of time it took to process those change orders. We implemented the changes in March of 2018, and we've seen a considerable decrease in that time we've taken to approve change orders. That included going through the change control committee process, which is an executive committee that reviews all the changes that our -- that have to go to council for review, so that -- that was also included in this process improvement. >> On the next item, item 3, the item was to review, update as necessary and enforce the department's cost estimation process, and work with stakeholders to develop a more accurate process. This is an item that we had

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already identified prior to the audit, so as we were going through the audit we actually implemented this particular item. So we have a budget cost estimating form that was revamped to distinguish

between civil projects and architectural projects. This form was updated and training was conducted not only for project managers but for also [inaudible] Departments. This form was used in preparation for the 2018 bond projects, so we worked with client departments to put the risks that were identified in that particular budget form to sure we incorporated all the components that sometimes I guess in historical bonds may have been missed. So that action was taken care of in 2017. Item no. 4, to review and update as necessary enforce documentation required for construction inspectors and ensure that inspectors are assigned to every project under construction, whether these inspectors are for construction services division or hired from a third party. This item also was addressed during the audit as the audit was concluding, we went ahead and updated the project manager's manual to make sure the language was very clear and specific. We also provided updates to the daily reports we were digitizing at the time. Prior to this we were doing paper daily reports, so we did implement the daily report structure using the system of record, which is eCamsys, and -- Capri and we identified tweaks that needed to be done to those forms so tweaks were done and training was done with all our inspection staff. Item 5 was recommended a public works work with capital contracting office and the law department to reduce barriers to incorporate construction feedback in the vendor evaluation process. The vendor evaluation process should include a section for documenting subcontractor performance. This was the recommendation that came from our auditor's office, and that process

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also was done expeditiously and I will let Cynthia talk about that one a little more. >> We implemented the changes to the contract consultant evaluation program in July of 2017. That was after holding feedback sessions with stakeholders. We did two sessions in June. The -- we also provided a quarterly report to the construction advisory commission that will give them the information of the data that we receive from these evaluations. We did -- we did get a request to implement changes for the -- to include subcontractors, part of the audit. That was considered, but we did not make a change to that. We do not evaluate subcontractors through this process. >> That was a discussion that was had with the law department since our contract is actually with the prime contractors. I wanted to clarify that. I do want to emphasize that the evaluation form does evaluate the prime vendor, both consultants and contractors, and therefore it's their responsibility to make sure subcontractors are meeting their goals as well. Otherwise it reflected -- reflects on their score. And as Cynthia said, on a quarterly basis these reports are provided to the construction advisory committee that look at the effectiveness and they were very key in providing some of the input that led to update that form. The item 6, which is the final findings they had on this particular audit was to work with stakeholders to develop an effective project management tool or improve existing tools to increase project manager efficiency and opportunities for coordination with departments. This item is something that we've -- we agree, and we've been working for many years. There have been some new tools that have already been

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implemented since the audit. Some of the tools were rolled out with the 2016 mobility bond project, capital explorers, a web site that's already out there that's open to the public, that gives you information on the status of each of the 2016 bond projects, so that went live I think a year, yeah a half ago. We're also using intel tools like microstrategy to extract directly from the system of record, which is ecapri, to produce reports that give you updates on the capital progress reporting, and we're actually having monthly meetings with our client departments. We've been rolling it out with the various departments and we're still continuing to roll that out, but we find that to be more effective. In addition to that we are evaluating automation tools for this as well. Systems of records that the city has are already in place, so we're trying to augment it with other tools that are out there to help create the project management tools that we don't currently have. And once again, we are using some too in the 2016 mobility bond spearheading to see if that's an option that might work for full capital delivery as well. Those were the six findings and this is a high-level update we were providing. I want to know if you have any questions.

>> Alter: Thank you. I appreciate youring back. I asked for this update because this was a pretty scathing report back in September of 2017, and I think given the amount of money that we have after voters to support and our bonds, the amount of money we have in our capital projects, we need to make sure that respond to this audit quickly and appropriately, and it sounds like you have a lot of different process pieces in place that will create controls. I'm curious as to how we are monitoring the success of these process changes and what kind of indicators you have and at what point you'd be ready to come back to us to show us the impact of these changes on your work. >> So we're continuing monitor -- one of the items that we talked about was the

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change order, so what we're doing right now is collecting the data of what time it took to process change orders before we made the changes, and we're gathering the data to actually compare it. And as we automate it we'll come to that, so we would be happy to come back as frequently as you need us, but I think on annual basis we can give you an update and actually give you some data to actually show you how it's going. >> Alter: Are you also looking at other measures? So part of the question that I think came up was that there wasn't enough time being spent at the design stage, and so there were a lot of change orders, and so processing change orders quickly might not rectify the problem that the audit identified. I understand that's a measure you need to track and it's something that affects the cost of our projects and so it's something we do want to improve, but that alone does not get at the issue of whether our design processes are looking ahead and foreseeing potential problems so that we don't have to do the change orders in the first place. So you can process the change orders quickly so you can get rid of having to do the change order, which I think was the more important part of the audit so can you speak to how you're rectifying that piece? >> Yes, you are correct. Change orders are vast in nature, and so just because it's a change order doesn't mean it's a negative thing so we're breaking out the data. We track it in our system of record, the type of change order so we're actually looking at monthly reports to see what the cause of the change order is and sometimes it's user request, and that may be tied, like you said, earlier in defining and defining the scope early on clearly might be part of it. We're trying to distinguish was it a design issue or change request unforeseen. So there's various information we're collecting and we're

separating that so we can start getting the full picture of the need for change orders and see if it's actually a negative or if it's a positive on the change order.

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>> Alter: So how will we get feedback on that? Because I think that was the real issue in the audit, whether a design process was setting us up to have make a lot of change orders. Obviously there are change orders for lots of different reasons, but the really costly ones were coming from that, as I understood. So how can you report back to us -- obviously you've implemented the changes and that would be the appropriate thing at this point in time, but a year from now how do I know that those processes address the cause or the root problem here? >> I think we can start putting some reports together now that we're collecting data to be able provide to council the rt, pod so you can actually look at the data on the capital delivery, as a whole. >> Alter: Okay. Because I don't know if the auditor, if you had any thoughts on that would be appropriate next steps to get at that piece of the audit. >> I think I can certainly talk about that with my folks who both worked on the original audit but also the people who have recently followed up to see that our recommendations were implemented. So I think they may have some insights on that. I do -- it's very exciting, all the changes that they've made, and we've confirmed that all of those recommendations are implemented, so as part of our process, and we'll let you know more about this on the next item, but they get today, yes, we've implemented it and we come in and verify that because we're auditors and we try to trust people but we're not very good at it. So we go in and make sure that what they're saying really addresses the original finding or the original recommendation, so I'm really pleased we're able to say all six of those recommendations we verified are implemented. I do think -- I mean, I think it's a great question, is are the -- improving the change order process is great because it means that one of the things we saw project managers circumvent the -- were circumventing the change order process because it took too long. That's not great. You don't want that. The process exists for a reason. At the same time like are the -- are the design issues related to the point where we don't have to have that volume of change order. So I do think that maybe check back in or some

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reporting maybe a year from now or -- depending on what data they have available would be really helpful to kind of verify that those -- that that kind of -- like you said, the root cause has been addressed and is not continuing to create extra change orders going forward. >> Alter: Mr. [Inaudible], if you'd like to speak? I know cause in, your leadership thing started after most of what was audited in that, so please speak to -- >> Thank you, council member, Richard Mandel, director of public works. I just wanted to add in -- in the area of available tools to assure that we are focusing our attention on the quality of our design up front, so understanding that to the degree that we take that investment on the quality design, we can mitigate, perhaps, the amount of change orders further down the road and construction will go more smoothly. One tool that was not mentioned in our report, and it's because we are in the final stages of implementing that, is applying the same work flow management and document control tool that

dsd has made improvements in reviewing site development plans. We can utilize a work flow application to design reviews, and what that does is ensures consistency of a risk-based approach to design reviews, once we've established those parameters. We've already started to do that and what we've found is that not only are we gaining improvements in the quality of those design reviews but also reduction in the time it's taking us to perform those designs. And then also that work flow management tool will afford us the data, and we're building the metrics now, to be able to report back, and then we can quantify and

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measure the improvements we're making due to these efficiencies in perhaps risk-based approach to design reviews that the auditor had recommended that we're putting into practice. So I look forward to fully implementing this work flow management tool and then bringing back the results of that data at a future time. >> Alter: Great. It's my hope that the work that you're doing in response to this audit and the relatively new leadership and the challenge of moving forward with so many bonds will allow us to have a report back in a reasonable amount of time that will show that the changes that came from this audit and this fresher look at our processes and procedures will have saved us money and improved the process and allow us to move forward with our capital projects more quickly and more effectively over time. And so I'd like us to design whatever that look-back is in an appropriate amount of time so that we can check in, and I'm not trying to pick on you guys. We get a lot of different audits of very different magnitudes. Public works is charged and capital contracting are charged with huge amounts of money for other city, and so these processes are important on a different scale than some of the other audits that we see, and I think it's important that we keep following up and making sure that everything is circled back and that we're seeing the results that we need to see in this area, and I'm confident with what you've presented that, you know, you have done the actions that the auditor has asked, but I would like to see kind of the next follow-on so we can say, okay, we did this audit, we made these changes, we took this seriously and we're seeing these kind of results, and I want those results not to just be about the time it takes to do the change orders, although I understand that that's important to your contractors and what not. So I don't know exactly the perfect timing for when that look-back would be, but I think it's important for

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this committee to be having that kind of oversight over the capital stuff, and I do also want to recognize that it's -- it's great that at the same time we're hearing back from you, also hearing from the auditor separately that those actions have been implemented. So I think that's also real good. So thank you. Anyone else have any questions? Great. Thank you. Then we'll move on to item 7, which is our ongoing follow-up audit, which segues nicely from our prior -- >> Council member Alter: I will make sure that copies get sent to the committee and get posted on the backup. >> Alter: Great. Thank you. Council member Tovo: >> Tovo: Chair, I just want to let the committee know, I have -- I serve on the downtown Austin alliance

and aprs, both of which meet at 11:30, and so I'm going to make a choice between the two, but I'm going to have to leave here probably by 11:15 to get to one of those two on time. >> Alter: Okay. I think we can -- okay. >> I think we can move quickly through these items. Just -- just on follow-up, so the great thing about follow-up is that many people in our office have worked on the original audit, and so we leverage their expertise to follow up. So you see here we have like, one, two, three -- a lot of people, seven people listed as involved in the last six months of follow-up, and so it Rea is a team effort to make sure that the recommendations that we've issued get implemented. Olga, who is our quaty assurance coordinator, is responsible for any follow-up we do so she coordinates that and manages that and is here to present to you today. >> Good morning. I'm going to start with a high-level snapshot of our overall progress, so here you will see all the recommendations issued through all those fiscal years. Green is what we tested and confirmed full implementation. Orange we tested but a few steps needed to be taken to full implementation, and gray is what weaven't

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tested yet. For example, those four recommendation areas have been outstanding for more than five years, so that's represented in Orange in the previous slide, and that's kind of one of the themes that we want to bring up. Better news is that out of all those recommendations we were able T test 130, and 99 of them a fully implemented. The results of this specific six months of testing is on the screen now. We tested 22 recommendations. 19 of them are fully implemented, including the six that we talked about just now. The details are available to you in the backup. And three mor recommendations are under way and they're -- we agreed with management on the further steps that need to be taken to full implemtation. Another piece of good news is we are going to have this new system called Tim central. It's going to allow us to have more streamlined process, where we can communicate with management directly on the stus of the recommendation. Re is a kind of view of howt's ioing to look like in the red square. We will see all of our recommendations that we issued, and once management put in their response and review, it will move to the next bucket called implemented, which means ready for us to review. We do our piece, and then we move it to closed, and that's -- that's where we want to be. And that concludes my presentation. I'm happy to answer any questions. >> Alter: Comments or questions? >> Sounds good. >> Alter: I would just like to ask if you could report to us on the 31, just to let us know which of the 31 that haven't been officially confirmed implemented, and ththen you do your next look, that you make sure you look at the harsment policy audit. >> So that's -- coordinating

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with matrixsultong to do the harassment, retaliation investigations, and we absolutely include that in or next -- >> Alter: Thank you. Do you have a motion to pt this? Council member pool makesat.th council member tovo seconds. All those in favor? It's unanimous. On item 8 on the auditor's plan, I need a motion to postpone, please. Council member tovoesak that mn.io council member pool seconds. All those in favor. Unanimous on the dais. And then we have the item no. 9, the city auditor's gritte unit

update. >> Brian alloy is our chief of investigations and he'll make the presentation. >> Thank you very much, council members, and I'll make sure to hit your deadline, council member tovo. I am the chief investigations. I'm just going to cover our -- the integrity unit's outputs for fiscal year '18 and give a little bit of preview for what we expect to do for the remaining six months of the fiscal review. So our main driver of work is the allegations we receive this year so far the first half of fiscal '19 we received 155 allegations. It's a 20% uptick from the previous year. Largest number we've had in the last four years. Of note, we usually get more allegations the second half of T yeahe than the first, it's usually around 20 or so allegations more, so if this pace keeps up we'll have our largest year overall in the last four years and finish with around 330 allegations for our off to review and investigate. Not all allegations are within our jurisdiction, however, so our first step in our review process is to triage whether it's going to St with our jurisdiction or go to another department. Roughly about 60% of the allegations atth come ire referred to another department. The largest group of that 60 are a SHAR issues, harassment, discriminn,io reretaliatio 40% of all

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allegations. Another subset of ones we refer out areep dartmental issues, makes up about 10% that come into our office, that 155. The other thing wve notified, 71% come from anonymous reporters. That supports industry best practices to have anymous reporting in your whistle-blower program. It encourages people who might be afraid of retaliation or negative consequences to still report because they can remain anonymously. We've also noted that les than 1% of our reporters are contractors, a few contractors might be reporting as anonymous and we just wouldn't know but that's something that we're starting to look interest, and we'reomg up with ideas on how we can increase that coordination with our contracts and vendors. Of the issues that we main within our jurisdiction that my offic investigates, we're continuing to see misuse of city resources, theft, abuse, waste and conflict to drive our workload. Of the allegations that are within our jurisdiction that we find independent edencvi to corroborate they turn into what we call cases and get more investigative resources. So far this fiscal year we've finished five investigations, four of them were substantied and produced public reports. One was substisted de minimis so that was closed out with the individual department to identify the risk we -- the we identified. In one involved the public works department. Human resources was another one. Otheanfocus on Austin energy and a third spanned a couple departments so fit a city management description. For the rest of the year we have nine -- at the close of the first six months we had nine open investigations that we hope to finish this year. They span a Visa position, misuse of resources, time sheet theft and waste -- all are on tra to report -- none are on track to report to the ethics review commission. As you're well aware we

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recently changed city code to change W erc has jurisdiction over. Just to show you what impact that will have on our workload, these are the last ten cases that went to the erc through our comaint filing

system. Under the N jurisdictional rules only three of those would actually have still gone to the council. The rest would have reported to city management or a relevant city department. Note -- we find that notably relevant because the first half of this fiscal year and all of fiscal '18 every time we've reported to a city department or management we've seen action taken, whether that's disciplinary action for employee or some sort of process change to reduce whatever risks we identified in our report. Finally, touching back on that contractor issue where we only had less than 1% come from contractors, we're starting what we call another integrity project. It's a way for us to identify how we -- how the city has touch points with contractors and vendors, how we can educate them on fraud waste concerns, and how we can educate the employees on how to report the concerns to our office so hopefully increase the fraud reports coming into our office so we can look at them from a contractor vendor perspective not just a city employee perspective. That concludes my presentation. I'm happy to take any questions. >> Thank you very much. Council members, do we have any questions? If not, do we have a motion to accept the report? Council member pool motions to accept the report council member Tovo seconds. Everyone I in favor, I'm assuming. All in favor. Great. So our -- thank you. >> Thank Y. >> Our last item of business is to identify items to discuss at future meetings. I want to flag a couple things here. Would like a follow-up perhaps in June on the harassment policy audit that's separate from the implementation but to hear from, I guess it would be here, on where they are at. That would be separate from the auditor looking at it.

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That policy came back in 2017 and we don't -- that audit came back in 2017 and it does not appear that we've had much movement on that. In May we've asked the finance department to report on the deferred maintenance spending, so as you'll recall in the budget we had item M that went for deferred maintenance to be reporting back on how that money has been spent. In June, finance will report on the overall capital program excluding enterprise fundings, discussing outstanding bond programs from 2016 through today, and in June we're expecting to also see the annual pensions report, expected then. Does anyone else have any other items that they would like to add or think about moving forward? Council member Tovo? >> Tovo: Just one thing that I'll mention at Austin Energy too, we -- when we set our calendar for Austin Energy audit and finance, a whole lot of those days are the same, and so just as we go throughout this day this might be the first of those days, where we have this in the morning and then audit and finance in the afternoon, and so it just raised that as a possible thing to consider one committee or the other. It's made a little more challenging for me because in the middle I have either one or two council committees filling that time, so I'm just overlapping all over the place, but -- >> [Inaudible] >> Tovo: I'm going to suggest a couple options in Austin Energy to deal with the conflict on that end, but, you know, we have been looking at calendars to see if there's a way to shift audit and finance and Austin Energy on some days so that they're not on weeks, so that we're not having both on the same day, but just throw that out for -- >> Alter: Why don't we move the June -- we moved the June date so it shouldn't be -- we moved the June date for audit and finance -- >> Tovo: So that will take care of the problem. We can look at that together but throughout this day we can think about how it feels to have them on the same day

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and whether it would be better to have them on different weeks. >> Alter: Sure. Yeah. >> And we are flexible about what day audit and finance occurs, so we can move those as needed, and in June has moved one day early, and then our next meeting after that I think we have an August, or maybe August was a we will schedule it if we need to, and then September we can -- we can move one way or the other. >> Alter: Thank you. Is there any other business that we need to take care of at this point in time that being said, it's 11:15 and the audit and finance committee is adjourned. Thank you. [Meeting adjourned]