

AUDIT/FINANCE COMMITTEE
April 16, 2019
MEETING MINUTES

After determining that a quorum was present, the Audit/Finance Committee of the City of Denton, Texas, met for a regular meeting on April 16, at 10:30 a.m., in the City Hall Conference Room, at City Hall, 215 E. McKinney Street, Denton, Texas.

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

STAFF PRESENT: Todd Hileman, City Manager, Antonio Puente, Jr., Interim Assistant City Manager, David Gaines, Assistant Finance Director, Cody Wood, Assistant Controller, Police Assistant Chief, Bobby Smith, Gary Packan, Director of Parks and Recreation, Laura Behrens, Assistant Director of Parks and Recreation, Heather Gray, Parks Business Manager, Cassandra Ogden, Director of Procurement and Compliance, Jamie Lindsey, Compliance Officer, Umesh Dalal, City Auditor, Madison Rorschach, Auditor, Nancy Towle, Treasury Manager, Hailey Payne, Treasury Analyst, and Theresa Jaworski, Recording Secretary.

OPEN MEETING:

Council Member and Committee Chair, John Ryan, brought the meeting to order at 10:30 a.m.

1. ITEMS FOR CONSIDERATION

A. Consider approval of Audit/Finance Committee Meeting Minutes of March 5, 2019.

Council Member Paul Meltzer made a motion to approve the March 5, 2019, Audit/Finance Committee meeting minutes. Mayor Chris Watts seconded the motion. Motion passed unanimously.

B. Management Report – Internal Audit Memo on Status of P-Card and Procurement Audits.

Tony Puente, Interim Assistant City Manager, explained the Internal Audit Memo was intended to be an update for the Committee. Staff continues to work with the City Auditor and plans for a meeting at the end of April, with Mr. Dalal presenting the report on the City's P-Card Program and the report on the Procurement Audit.

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

This item was pulled from the April 16, 2019, Audit/Finance Committee meeting agenda.

D. Receive a report, hold a discussion, and provide staff direction regarding an internal audit of the Police Property Room.

Madison Rorschach, Staff Auditor, expressed appreciation for Chief Frank Dixon, Assistant Chief Bobby Smith, and the Property Room staff for their assistance with the audit and followed with the reason for the audit.

The Property Room holds all the evidence gathered by the Police Officers, and safeguards the items. Specifically, we focused on high risk items including guns, drugs and money, looking at how the property room was organized and maintained the security and safety of the items. We also looked at the storage and disposal of the high risk items. There were two major findings.

The first finding was the Property Room facility inadequacy. The doors and the walls do not meet the standards set by the International Association of Property and Evidence (IAPE). It can be easily broken into, specifically in the evidence cage increasing the risk of theft. In addition, it is overcrowded, currently safeguarding over 100,000 items in the inventory and the items are expected to double over the next ten years. There is no space for a gun or drugs cage to be built in accordance with standards. The exception is that money is held in a separate enhanced security area. The new Police facility will fix these issues but staff recommends some temporary suggestions to hold over until that facility is completed.

Watts asked if the flooding has been addressed. Was it coming in through a roof or wall leak?

Rorschach answered that flooding still occurs but the evidence was moved off the floor to avoid further damage.

The integrity of the inventory cannot be assured, based on the current system and due to a segregation of duties issue. Currently, a Property Room technician records in the system the creation and storage of items during the trial, then a third party authorizes and verifies the disposal. Without segregated inventory tracking, this leaves a risk of internal theft. If an item is not entered into the system it could easily be taken, with no way of knowing it was missing especially, if it was not an evidence item.

These two issues are compounded by internal security issues. Most significant is that the video security footage is only stored for 60 days versus standards that recommend video security footage be stored for three years.

If an item is noted missing 60 days after being confiscated, there would be no way to easily track

that item.

Meltzer asked if the monitoring was continuous or motion-activated, and would that be why storage is so short, due to sheer volume.

Rorschach answered the monitoring was continuous during the 60 days. Not all areas of the Property Room are monitored. Some areas have motion or sensor alarms. The 60 days is the City's standard practice.

Despite the integrity issues, staff conducted an inventory, examining 270 items in the records management system. Approximately half of the items were currently stored in the facility. With the technicians' help, all but one of the items were accounted for. That one item was seized in 2003. The Police Department determined that it was a federal case and was most likely sent to the federal court with no documentation. Generally, the organizational system appears to be effective.

The other half of the items were marked as disposed. Since 2014, the documentation of high-risk disposals has been adequate, except for drug destructions. In general, documentation requirements for disposal are: authorized by someone who is not part of the Property Room; independently verified before destruction; and witnessed by a third party. In particular, there was no independent verification of drug items before destruction. There was evidence that there was verification of items but this was by Property Room technicians, and not for all destructions. Recommendations were made to that effect.

In addition, it was brought to our attention that 90 sexual assault kits that were collected prior to 2010, have not been tested. In 2011, the Texas state legislature enacted a law requiring law enforcement agencies to send all newly collected sexual assault kits to a crime lab for testing within 30 days. The law also required the law agencies to count the untested sexual assault kits in their storage facilities and have them analyzed by September 2014. This is no longer an issue as the City's laboratory partner will not accept the untested kits, due to a backlog issue. The Police Department is currently applying for a grant but additional funding may be required.

Metzler asked about the cost of testing the kits.

Smith answered the cost can differ but close to \$1,000 plus per kit.

City Manager Todd Hileman added, the grant application has been signed and Chief Dixon is also

working on a budget. We'll wait for next year's budget to see if we receive the grant funds otherwise, we will find the money to get this caught up.

Watts expressed appreciation for staff's response during the audit and the steps taken to mitigate some of the findings as well as the coordination and collaboration between the audit staff and the Police Department. It is very helpful.

With no objection, there was a general consensus to move this item forward for the City Council's consideration but there was no vote on this item.

E. Receive a report, hold a discussion, and provide staff direction regarding the upcoming issuance of General Obligation Bonds and Certificates of Obligation.

Puente introduced the item and addressed the GO Bonds first. This is part of the 2014 Bond Program and the fifth year of issuances with one more year left afterward or \$14 million remaining to be issued after this \$19.37 million. The number of projects have been discussed at length with the Bond Committee that recommended moving forward to the Audit/Finance Committee and to the Council on these projects.

Meltzer asked if this is fulfilling something that was already enacted with the exception of the reallocations for Ruddell – Mingo.

Puente confirmed that is correct.

Todd Estes, City Engineer, stated there is an area-wide traffic study combined with a more holistic design of Mingo from Bell Avenue, all the way up to Old North Road with Ruddell being a part of that. It all has to do with mobility in the area in and around TWU, the residents that live there and how we best service them.

Watts asked if the current legislation in House Bill 2 (HB2), the COs originally included to be moved over to O&M but have since been removed for now. Would this plan still be in effect, or would your recommendation still be the same, notwithstanding what happens with HB2 where COs are included in O&M or stay in the debt service tax rate.

Puente answered it was his understanding that the chairman on the House side was the one that proposed to include COs. It is our understanding that he has now introduced an amendment to take it out. There will be some on-going negotiations between the House and the Senate. What is interesting is that the bill passed yesterday by the Senate did not include that same language. It is anticipated that that bill will be pulled out.

If this item is approved, we plan to do a Notice of Intent and take that to Council on April 23 for

their consideration. We will still have 30 days to see what happens and then can reevaluate.

The only caveat is that Council has already authorized an amount on these that has been spent. We will evaluate as we go forward and our recommendation is that we go forward.

Watts explained the current House Bill would not be in effect until the next budget year 2020 not this current budget year.

Puente stated that a recap was provided on the total amount authorized, dating back to the 2014 Bond Program and what's remaining or a little over \$14 million that we would plan to issue in GOs in FY 2019-20. These are for the 2014 Bond Program and doesn't include the discussion we will have later today on another bond program.

We also propose to issue \$9 million of COs. All of these were included in previous reimbursement ordinances. We have pushed forward with many of these projects and are underway. Total amount for general government includes \$1.6 million to refresh Tech Services. We are evaluating that number. If you remember the recent discussion on the CAD system, we think there will be some savings from that and be able to repurpose to the refresh and lower that number. The plan is to go forward with the \$1.6 million and continue to look at that. We can always lower that when Council considers the bond ordinance or before we go to sale. The Notice of Intent simply sets the maximum amount. We can always come down, if things change.

Metzler asked for clarification on enabling the projects to go forward in anticipation of funding them now and how that works.

Puente explained that annually, staff does a reimbursement ordinance. This year we did two of those. We go to the Council and ask for authorization to move forward with many of these projects. That is to a large extent, committing you into the future to issue the bonds at least up to the amount that has been expended up to that point.

In addition to the General Government and Technology Service COs, we are proposing to issue \$17.39 million in COs for Wastewater and Electric projects. We will not recommend issuing any debt for Water or Solid Waste. Of that amount, \$9.8 million is related to Wastewater projects, none of these projects have been preauthorized. The same issue with the Electric projects. On the Electric, the \$7.59 million is all related to transmission. Some of the discussions we have had with you on the financials for the Electric system is that we are cash funding distribution projects then debt funding the transmission projects.

Metzler asked for confirmation on the rationale for using debt for transmission is because it is attached to income stream.

Puente stated, that is exactly right adding the overall proposed bond sale we are considering now for new debt that is, GO and CO debt, is \$45.76 million with issuance cost included.

On October 16, 2018 and February 26, 2019, the City Council adopted reimbursement ordinances (authorizing \$28,370,000 in GO and CO funded projects for General Government and Technology Services.

The City sells bonds in accordance with the useful life of the asset that is being acquired. Vehicles are typically sold with bonds that will be paid within 5 years. The \$1.5 million will be 10 year debt for facility improvements, HVC, roofing on the general government side, \$32.17 million will be 20 year debt; and the transmission will be 30 year debt. That's how it is advertised and paid back over time.

Staff is looking at the possibility of refunding \$28.6 million of outstanding utility system debt from 2010. We call it the TMPA scrubber debt that is on our books and matures in 2025. We would not be extending the life, the refunding would take us out to 2025. We're calculating about a \$1.7 million savings associated over that life. That doesn't hinder a payoff on that debt in the future, if we choose, but the current plan is to take advantage of \$1.7 million and potentially refund again. This is subject to market forces and where we are. We will continue to evaluate that until we conduct that bond sale. We can always pull that out, if we decide the savings should start there or if some of the financials change from the election system.

A discussion followed on using the TMPA scrubber debt to allow some flexibility with cash management and how refinancing debt achieves a savings on interest change.

Watts stated that the whole rate of return for transmission debt gets confusing. It will be helpful to take the electric portion of the \$7.9 million and do a performa on that showing the debt, the rate and expenses to simplify the presentation. The rate of return is different than fully realizing the cost of your asset.


Hileman agreed, adding that this is already being provided on a couple of substation projects and it cuts the cost by about half. That could be easily provided.

Puente advised that if the Committee concurs, staff plans to present two Notice of Intent ordinances to the City Council on April 23. There will be a Notice of Intent for the General Government Technology projects and a separate Notice of Intent for the Electric and Wastewater projects. If it is approved by Council, there is a 31 day wait before going back to Council to authorize the bond ordinances to be able to issue all this debt. The Notice of Intent is only required on the COs, not on the GOs or the refunding. The documentation provided to Council will include the additional GOs that we plan to issue.


Council Member Paul Metzler made a motion to move the item forward to the City Council followed by a second from Mayor Chris Watts. Motion passed unanimously.

With no more items to address, the meeting adjourned at 11:00 a.m.

The April 16, 2019 Audit/Finance Committee Meeting Minutes were approved on April 30, 2019,



John Ryan, Audit/Finance Committee Chair



Theresa Jaworski, Recording Secretary