

**AUDIT/FINANCE COMMITTEE**  
**June 18, 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 June 18, 2019, at 10:00 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, David Gaines, Assistant Finance Director, Todd Estes, Director of Capital Projects, Cassandra Ogden, Director of Procurement and Compliance, Lori Hewell, Purchasing Manager, Tiffany Thomson, Director of Customer Service, Jamie Lindsey, Compliance Officer, Umesh Dalal, City Auditor, Rachel Wood, CMO Chief of Staff, Madison Rorschach, Auditor, Nancy Towle, Treasury Manager, Betsy Snodgrass, Internal Audit Administrative Assistant, and Theresa Jaworski, Executive Assistant and Recording Secretary.

**OPEN MEETING:**

Council Member and Committee Chair, John Ryan, brought the meeting to order at 10:06 a.m.

**1. ITEMS FOR CONSIDERATION:**

**A. Consider approval of the Audit/Finance Committee minutes of April 30, 2019.**

Committee Member Paul Meltzer made a motion to approve the April 30, 2019, Audit/Finance Meeting Minutes. John Ryan seconded the motion. Motion passed unanimously.

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

Madison Rorschach, Auditor, presented the item setting out the expense of the City's maintenance and improvements for the City's streets, and utility lines under the streets that require cutting into the streets that weaken the integrity of the street structure. The City mitigates the effects of some of these cuts through the right-of-way permitting process that includes three key components: Design standards, Work by Utilities and Contractors, and Reviews and Inspectors. Staff found that this process is well designed but there are three areas that could use improvements as follows:

1. Standards do not require patch joints to be sealed, as best practices suggest and permit documentation indicates that the utility street cut patches are not being tested by the prescribed ride quality test. Recommendation: Standards be changed to address this issue and staff concurred.

2. External and Internal Utilities are being held to different standards. Recommendation: Public Works inspectors complete these inspections and City's utilities comply with appropriate standards. Staff generally concurred with these recommendations. Engineering Services and Water Utilities are currently collaborating with new annual standards to cover this kind of work.

3. Workload of the right-of-way inspectors is heavy and part of the reason for being unable take on the City utilities additional inspections. Recommendations: Since additional inspectors were recently hired, this was recommendation was not needed. An implementation of a permit management solution, improving efficiency in that division and allow more time for inspections.

Thirteen recommendations were issued and management fully concurred with all but one partial and that is being addressed to meet the utility standards.

Following a short discussion, it was determined that this item should move forward for the City Council's consideration, per the Committee's consensus.

**C. Receive a report, hold a discussion and give staff direction regarding an internal audit of the City's Procurement Card Program.**

Dalal stated that the noncompliance situation in Purchasing's P-Card audit was because of staff's misunderstanding of Section 252.0215, State Local Government Code, or that it requires only two or more highly underutilized businesses (HUB) quotes with a single purchase of \$3,000 or more. During this process and working extensively with the City Attorney's Office, it was determined that the correct interpretation is that this is a cumulative purchase with each purchase less than \$3,000 or \$50,000, respectively the law still applies. Also, the law does not give any timeline, making compliance very difficult. That is why the City Attorney's office suggested documenting the due diligence process. As long as we are documenting with due diligence, it can be said with confidence that we are looking at the process on a continual basis. As an auditor, that gives comfort that a process is in place and Purchasing has agreed to the process.

A discussion followed on the p-card, the reason for bringing this item back to the Committee in finding the City had seven vendor purchases exceeding \$50,000, and discovering that there were no bids and no compliance to the statute for HUBs.

The Committee determined that this item should move forward to the City Council for consideration, per the Committee's consensus.

**D. Receive a report, hold a discussion and give staff direction regarding an Audit of the Procurement Department's Programs and Controls.**

Umesh Dalal, City Auditor, explained that his job duties include independently evaluating the City's operations and provide assurance to the City Council on the internal controls, compliance, and effectiveness. After examining the City's compliance with procurement statutes and policies, the goal of the Internal Audit Office is to provide the City Auditor's analysis and share concerns with the Committee to make them aware that over the past several months, the City Auditor's Office, Procurement, and City Attorney's Office worked closely to work out differences. At this time, controls with Purchasing will improve, due to the change in practices and some of the actions taken by the Procurement Department.

Dalal stated the purpose of the audit. Other than payroll, Purchasing is one of the most significant ways the City spends its money. In FY2018, the City spent \$168 million through the purchasing process. The state statutes have several provisions for fair and competitive procurement in local government. The statutes also provides offering opportunities for historically underutilized business to bid on the City's businesses. The Purchasing Division is the only independent function that could and should verify the City's compliance with procurement laws. It is the only function that has the overall view of the entire organization and all the purchases are processed through the Purchasing Department. If abuses occur in the Purchasing area, it can tarnish the City's reputation, be detrimental to public trust and it is very important to look at. In addition, noncompliance to procurement statues can result in financial penalties and confinement.

Dalal also stated that the audit findings revealed that Purchasing has good policies and procedures, they are beginning to use cooperative purchases, and the Division appropriately processes emergency purchases, but there are opportunities for improvements in compliance with the statutory requirements and the City policy needs to be improved.

Ryan asked about requesting a quote on underutilized businesses.

Dalal clarified that there must a request for a bid. If there is no response from the underutilized businesses, and that is documented, the good faith effort is made, the City is in compliance.

Dalal went over the City bidding process noting that the bids are received electronically, sealed in an Excel spreadsheet, but the whole process could be challenged. There are issues discovered in providing possibilities of alteration and any changes in the Excel spreadsheet is not tracked and thus provides no audit thread. The bid evaluation process did not have proper documentation of independent, unbiased determination of the bid. With the current process, it is hard to know if the bid evaluation was unbiased, with no backup on the criteria used in awarding the bid.

Recommendations were that the Director of Purchasing and Compliance ensure that criteria for best value are included in the request for bids/proposals, the City Council adopt that criteria for discussions with offerors submitting proposals, in accordance with Local Government Code 252.042 (b), and require retention of all bid evaluation sheets with detailed explanations of scores assigned to each bid, ensuring proper documentation is maintained that will justify awarding contracts to one vendor over the vender offering that the lowest price. With the absence of these documented reasons, the contract must be awarded to the lowest bidder, to comply with procurement regulation.

Mayor Chis Watts joined the meeting at 10:50 a.m.

Dalal followed with the audit findings on controls over the evaluation sole source purchase proposals and the need for improvement. Section 252.022 exempts procurement of items that are available from only one source. In 41 of 47 sole source purchases reviewed, there was no evidence that items offered, were the only products or services that can meet the City's operational need. There were only letters provided by vendors promoting their product's superiority and stating they were the only ones that provide the product. There was no evidence on record that the Purchasing staff verified, researched, or challenged this claim by the departments or vendors. Other exceptions included the Division accepting the department's notification showing their preference, due to their past positive experience with the product they are recommending.

Dalal stated the recommendations that the Department Directors ensure that products or services requested for sole source procurement are not available from any other source. Recommendation is that the Purchasing Division be required to conduct due diligence in research and in obtaining all pertinent information related to a sole source purchase request for analysis determining if the request complies with state regulations, and setting out procedures.

The Purchasing Department has introduced a form that the Department Directors must verify the vendor as sole source and, due to the audit, the City's control over purchases has already improved.

The Committee discussed the process of closing the vulnerability of the bid process with the recent purchase of software by Purchasing and is now in place preventing any alterations in bids, the form that constitutes proper evaluation and documentation and the processes for vetting sole source, the significance of tracking individual bid evaluation and the use of evaluation teams, the probability of staff bias in bid evaluations, making the evaluation notes available as a requirement as well as the forms now in place that addresses those issues, the due diligence by the City to look at past bids to monitor vendors who are selected and any obvious preference, and proper documentation validating that the City's evaluation is unbiased.

It was determined that this item should move forward to the City Council for consideration, per the Committee's consensus.


Mack Reinwand, Deputy City Attorney, requested the Committee's confirmation that they advised that all three items on the meeting agenda should go forward for the City Council's consideration.

The Committee agreed.

The meeting adjourned at 10:59 a.m.

The Audit/Finance Committee approved the Meeting Minutes on August 20, 2019.

  
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JOHN RYAN  
COMMITTEE CHAIR  
CITY OF DENTON

  
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THERESA JAWORSKI  
RECORDING SECRETARY  
CITY OF DENTON