

AUDIT, FINANCE & ENTERPRISE COMMITTEE

July 1, 2019

The Audit, Finance & Enterprise Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on July 1, 2019, at 4:00 p.m.

COMMITTEE PRESENT

Jennifer Duff, Chairperson
Mark Freeman
David Luna

COMMITTEE ABSENT

None

STAFF PRESENT

Michael Kennington
Dee Ann Mickelsen
Alfred Smith

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation and discuss the following audits:

Deputy City Auditor Joseph Lisitano displayed a PowerPoint presentation. **(See Attachment 1)**

Mr. Lisitano reviewed the five audits from the last quarter, April through June 2019.

1. Development Services Fees and Charges

Mr. Lisitano stated Development Services requested this audit and outlined the specifics of the review:

- Reviewed policies and procedures to identify applicable process controls
- Interviewed personnel and observed operations to assess effectiveness of controls
- Tested transactions for accuracy
- Evaluated the department's internal audit process

He explained the items were reviewed and audited to verify effective internal controls are in place to ensure fees and charges are accurately calculated, recorded, and collected. (See Page 4 of Attachment 1)

Mr. Lisitano stated during the audit the following items were found: (See Page 5 of Attachment 1)

- Cash handling controls need improvement
- Fees and charges were not updated in the Digital Innovation for Mesa's Electronic Services (DIMES) system
- Manual changes to permit fees were not monitored
- System access administration needs improvement
- Internal audit process needs improvement

In response to multiple questions from Committeemember Freeman, Mr. Lisitano responded by saying discounted utility fees were less than they should have been. He pointed out one of the fees that was updated had been for a larger water meter and the total discount came to \$2,000.

Mr. Lisitano highlighted improvements related to the department's internal audit process for cash handling, fees and charges changes, system access, and internal monitoring. (See Pages 6 through 8 of Attachment 1)

In response to a question from Committeemember Luna, Mr. Lisitano verified some actions have been taken towards fixing the issues. He stated the auditors have not yet tested the changes, however some procedures were implemented right away, such as updating the cash handling policy and storing checks in a secure location versus on staff workstations.

Mr. Lisitano stated management agreed with all the recommended changes and has agreed to implement them by October 1, 2019. He indicated the auditors will continue to work with the department throughout the process to help ensure successful implementation. He reported a follow-up review will be done in 12 months. (See Page 9 of Attachment 1)

2. Facilities Maintenance Contract Monitoring (Follow-Up Review)

Mr. Lisitano pointed out there were six corrective action plans for this department, and most were to monitor contracts and train staff to ensure work is done accurately. He noted all action plans were implemented when the 12-month follow-up review was completed. (See Page 11 of Attachment 1)

3. Police Department Supplies and Equipment (Follow-up review)

Mr. Lisitano stated there were several action plans implemented. He mentioned there were many similar issues as a result of being handled by different staff. He confirmed the department is in the process of ordering new Ballistic Helmets for officers and will implement the new process to track these items. He added the department will also be implementing a tracking process for keys that lead to secure areas to ensure they are not misplaced or missing. (See Page 13 of Attachment 1)

In response to a question from Committeemember Luna related to the ballistic helmets, Mr. Lisitano replied there are serial numbers and barcodes etched into the helmets along with the officer's name. He noted the older helmets did not have tracking devices or information.

4. Community Development Block Grant (CDBG) Contract Monitoring (Follow-Up Review)

Mr. Lisitano commented that there were many action plans in place for this department and most of them had to do with updating policies and procedures and providing staff with training to understand the CDBG requirements. He noted additional improvements that were needed was knowledge of the contracts to ensure all requirements were met prior to payment. (See Page 15 and 16 of Attachment 1)

In response to multiple questions from Committeemember Luna regarding the updated Housing and Urban Development (HUD) rules and changes in vendors, Community Revitalization Coordinator Dennis Newburn confirmed changes happen all the time and staff is fully informed of what is going on with federal funds and the department makes vendors aware of the responsibilities. He stated the changes will assist the department in being more responsive to the needs of the City's partner organizations.

Mr. Lisitano mentioned the department has looked at training and communication and has made the effort to meet quarterly with staff to cover changes and action plans that will be implemented.

5. FY 2019 Citywide Cash Funds

Mr. Lisitano indicated this audit is done annually to make sure the City's funds are safeguarded against theft or loss. He outlined the goals for the departments: (See Page 18 of Attachment 1)

- Early detection of issues to avoid significant losses
- Deterrence and consistent enforcement of compliance
- Relationships – answer questions/concerns; offer assistance when possible

Mr. Lisitano stated about \$1,000,000 in cash passes through the City each year. He advised no material discrepancies were found in fund balances and overall, there were effective processes in place to safeguard cash. (See Page 19 of Attachment 1)

Mr. Lisitano mentioned there were a few accounts that were counted wrong at the Mesa Arts Center (MAC) box office and recommended they count change fund daily at open and close of business and have a supervisor or lead staff member verify the counted amount to ensure all monies are accounted for.

Mr. Lisitano then recommended Parks, Recreation and Community Facilities (PRCF) implement improved internal controls to ensure all employees are receiving required training before handling money.

Mr. Lisitano continued by saying management agreed with all recommendations and will implement the changes by July 1, 2019 and added there will be a follow-up audit in FY2020.

In response to multiple questions from Committeemember Luna, Police Fiscal Manager Krisa York explained that for FY2019/20 the Police Department is implementing a new

scanning software to help keep track of all equipment. She stated although very little equipment is lost or misplaced, the software will make it easier to keep track of inventory.

2-b. Hear a presentation, discuss, and provide a recommendation on the proposed Audit Plan for FY 2019/20.

Deputy City Auditor Joseph Lisitano displayed a PowerPoint presentation. **(See Attachment 2)**

Mr. Lisitano listed the audits that are currently in process: (See Page 3 of Attachment 2)

- PRCF – Convention Center Operations Audit
- Police – Jail Services Contract Audit
- i.d.e.a. Museum – Earned Revenues Follow-up Review
- Payment Card Data Security Standards (PCI DSS) Review

In response to a question from Committeemember Luna, Mr. Lisitano stated corrective action plans were put in place for the i.d.e.a. Museum to update procedures for cash handling and charging appropriate fees for birthday parties.

Mr. Lisitano explained audits are selected by creating a risk assessment plan of various departments to determine risks, and on recommendations from Council or the City Manager.

In response to a question from Committeemember Luna, Mr. Lisitano explained the private jail in Florence has a contract renewal every three years. He stated when the contract comes up for renewal, an audit will be done to determine compliance and cost savings.

In response to multiple questions from Committeemember Freeman, Ms. York confirmed the jail contract is a three-year contract and is currently in year two and has the option to renew for additional one-year renewals.

In response to a question from Chairperson Duff, Mr. Lisitano estimated the audit would be complete in the next two months.

In response to a question from Chairperson Duff, Ms. York advised the contract is up for renewal June 1, 2020. She explained approval will be needed for the final year of the contract which will be brought to Council.

Mr. Lisitano stated Business Services/Purchasing, Fire and Medical, Human Resources/Employee Benefits, and Utilities are carry-over audits from last year and Transient Lodging Tax (TLT), Engineering, Police and Information Technology Department (ITD) audits are new. He stated when doing audits, the City budgets for 20% carry over in audit plans annually to ensure flexibility in the timing and staffing of each audit. (See Page 4 and 5 of Attachment 2)

Business Services/Purchasing – Procurement Processes

Mr. Lisitano stated auditors will determine if procedures are in place to prevent or detect errors, fraud, waste or abuse of Procurement Cards, as well as compliance.

Fire and Medical – Transport Services and Billing

Mr. Lisitano explained the audit process consists of looking at the controls and to ensure all eligible costs are recovered and Billing Services meets contract terms as well as making sure other financial risks are reduced.

Human Resources/Employee Benefits – Claims Administration Contract

Mr. Lisitano stated auditors will ensure performance expectations are being met and that effective controls are in place and being followed.

Utilities – Metering Processes

Mr. Lisitano explained auditors will be reviewing controls to ensure usages are accurately metered and recorded.

Transient Lodging Tax (TLT)

Mr. Lisitano pointed out TLT is a new audit for this year, and auditors will be looking to see if revenues are being used within applicable laws and contract agreements, and to determine if reliable metrics are in place to measure the effectiveness of the programs in place.

Engineering – Job Order Contracting (JOC)

Mr. Lisitano stated the JOC process will be reviewed to determine whether Engineering is working in accordance with established criteria and whether the internal controls are effective to protect errors against fraud, waste or abuse.

Engineering – Capital Improvement Program (CIP) Mesa

Mr. Lisitano explained the auditors will be reviewing the CIP process to see if there is any room for improvement.

Police – Photo Safety Program

Mr. Lisitano stated the financial impact of the program will be reviewed to determine how the revenue within the photo safety program is used and if the goals of the program are being met.

ITD – Software/Application Management

Mr. Lisitano explained the software/application management program will be audited to make sure effective controls are in place to ensure all application use is for City business and licensed inventory meets requirements.

Mr. Lisitano listed the follow-up reviews for next year: (See Page 6 of Attachment 2)

- Citywide – Procurement Card Program
- Arts and Culture – Nonprofit Support Organization Agreements
- Financial Services – Eastmark CFD

- Development Services – Fees and Charges

In response to multiple questions from Committeemember Luna regarding the support agreements, Deputy City Manager Natalie Lewis stated the i.d.e.a. Museum foundation and City of Mesa agreement had not been updated since the 1980's. She mentioned the Mesa History Museum and Mesa Arts Center agreement are also being updated and finalized. She stated all three organizations have foundations that help with fundraising and advocacy and having the agreements up to date clarifies the roles are for the foundations and the City. She added the Mesa History Museum also has a professional services agreement that is currently being reviewed.

Mr. Lisitano mentioned Citywide Cash Handling is audited annually, and the Procurement Card process has an annual review as well. He noted the audit department also receives updates from the Fraud and Ethics Hotline for anyone that suspects any type of fraud or ethical issues within the City. He stated the department will do consulting if other departments reach out and need help with reviews, or if the City Manager or Council requests unscheduled audits.

In response to Committeemember Luna, Mr. Lisitano responded by stating the audit requested on the Police safety photo program was received by a Councilmember.

It was moved by Committeemember Freeman, seconded by Committeemember Luna, that the recommended Audit Plan proposal for FY 2019/20 be forwarded to the full Council for discussion and consideration.

Upon tabulation of votes, it showed:

AYES – Duff-Freeman-Luna
NAYS – None

Carried unanimously.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 4:33 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 1st day of July 2019. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

City Auditor

Presentation to the Audit, Finance, and Enterprise Committee
July 1, 2019

Jennifer Ruttman, City Auditor

Reports Issued Apr-Jun 2019



Development Services – Fees and Charges



Follow-up Review – Facilities Maintenance
Contract Monitoring



Follow-up Review – Police Department
Supplies & Equipment



Follow-up Review – CDBG Contract
Monitoring



Citywide Cash Handling – FY 2019 Annual
Report

Development Services Fees and Charges

Report Date: 05/28/2019

An audit of internal controls related to fees/charges for plan review and permit activities.

Development Services – Fees and Charges

What did we audit and why?

- Reviewed policies and procedures to identify applicable process controls.
- Interviewed personnel and observed operations to assess effectiveness of controls.
- Tested transactions for accuracy.
- Evaluated the department's internal audit process.
- Why? To verify effective internal controls are in place to ensure fees and charges are accurately calculated, recorded, and collected.

Development Services – Fees and Charges

What did we find?

- Cash handling controls need improvement.
- Fees and charges not updated in DIMES.
- Manual changes to permit fees are not monitored.
- System access administration needs improvement.
- Internal audit process needs improvement.

Development Services – Fees and Charges

What did we
recommend?

Cash Handling

- Daily reconciliation of cash receipts.
- Update department policy to reflect current processes and remove outdated content.
- Develop a process to ensure employees complete cash handling training.
- Store checks in a secure location.

Development Services – Fees and Charges

What did we recommend?

Fees and Charges Changes

- Review of fees and charges annually, after City Council approves new Schedule of Fees and Charges.
- Implement system controls or process controls to mitigate risks associated with manual changes to permit fees.

Development Services – Fees and Charges

What did we recommend?

System Access

- Implement controls to remove access for terminated/transferred employees.

Internal Monitoring

- Develop a more effective audit process
 - Staff training.
 - Standard forms and procedures.
 - Follow-up process.

Development Services – Fees and Charges

Response & Follow-up

- Management agrees with the recommendations and will implement all changes by 10/1/2019.
- We will remain engaged with the department throughout the process to help ensure successful implementation.
- We will perform a follow-up review in 12 months.

Facilities Maintenance Contract Monitoring

Report Date: 04/25/2019

A follow-up review to ensure action plans were successfully implemented.

Facilities Maintenance Contract Monitoring Follow-up Review

Action Plans In January 2018 Audit Report

Facilities Maintenance Action Plans:

- ✓ Use Delivery Orders for contracted services.
- ✓ Train staff to forecast costs more accurately.
- ✓ Obtain dollar limit increases for contracts when necessary.
- ✓ Ensure estimated requirements are realistic when establishing contracts.
- ✓ Verify accuracy of charges prior to payment.
- ✓ Require contractors with cost+% pricing to provide cost data.

✓ Implemented

Police Department Supplies & Equipment

Report Date: June 19, 2019

A follow-up review to ensure action plans
were successfully implemented.

Police Department Supplies & Equipment Follow-up Review

Action Plans in May 2018 Audit Report

| Recommendation | MPD Unit | Status |
|--|----------------------------|--------|
| Conduct periodic physical inventories; document and correct discrepancies. | Fiscal/Supply | ✓ |
| | SWAT | ✓ |
| | PDIT (Laptops) | ✓ |
| | Training (Tasers) | ✓ |
| Track issued and expiring ballistic helmets. | Supply (Ballistic Helmets) | ◆ |
| Manage and track keys to secure areas. | Fiscal | ◆ |
| Dispose of obsolete and expired inventory properly and timely. | Fiscal (for WMD Warehouse) | ✓ |
| | Supply (Ballistic Helmets) | ◆ |
| | PDIT (e-Citation Devices) | ✓ |

✓ Implemented

◆ In Progress

Community Services Contract Monitoring - CDBG

Report Date: 07/01/2019

A follow-up review to ensure action plans were successfully implemented.

CDBG Contract Monitoring Follow-up Review

Action Plans In August 2017 Audit Report

✓ Implemented

Community Services Action Plans:

Claim Reimbursement Monitoring Process

Update CDBG policies & procedures manual to:

- ✓ Include program-specific procedures for the Claims Reimbursement Monitoring process.
- ✓ Include requirements for evidence of compliance by subrecipients.
- ✓ Track and document the resolution of findings from monitoring.
- ✓ Provide staff with CDBG training to critically evaluate subrecipients.
- ✓ Staff will meet periodically to ensure working knowledge is in place to perform program oversight.
- ✓ The organizational structure will be reviewed and reorganized to ensure effective oversight of all subrecipients.

CDBG Contract Monitoring Follow-up Review

Action Plans In August 2017 Audit Report

✓ Implemented

Community Services Action Plans:

- ✓ Vendor paid before contract requirements met
The Department Director will maintain a detailed working knowledge of the contract and ensure all requirements are met prior to payment.

Citywide Cash Handling

Report Date: 06/30/2019

Annual report on citywide audits of cash handling, change funds, and petty cash.

Citywide Cash Handling

What did we audit and why?

Throughout the year, citywide, we verify:

- Compliance with City policies and procedures.
- Petty cash and change fund balances.

Goals:

- Early detection of issues to avoid significant losses.
- Deterrence and consistent enforcement of compliance.
- Relationships – answer questions/concerns; offer assistance when possible.

Citywide Cash Handling

What did we find?

- Cash & equivalents handled by City staff – approximately \$1M annually.
- No material discrepancies in fund balances.
- Overall, effective processes in place to safeguard cash.

Citywide Cash Handling

What did we recommend?

MAC Box Office

- Count change fund daily (open and close).
- Count verified by Supervisor/Lead staff member (per Dept. policy).

PRCF

- Implement improved internal controls to ensure all employees receive required training before handling money.

Citywide Cash Handling

Response & Follow-up

- Management agrees with the recommendations and will implement the changes by 7/1/2019.
- We will perform follow-up work as part of the FY2020 citywide cash handling audit.

Questions?

City Auditor Proposed FY 2020 Audit Plan

Audit, Finance, and Enterprise Committee
July 1, 2019

Jennifer Ruttman, City Auditor

Audit Plan Overview:

- Current work in progress
- Audits planned for FY 2020
- Follow-up reviews due in FY 2020
- Other activities

Current work in progress:

- PRCF – Convention Center Operations Audit
- Police – Jail Services Contract Audit
- i.d.e.a. Museum – Earned Revenues Follow-up Review
- Payment Card Data Security Standards (PCI DSS) Review

New audits:

- *Business Services/Purchasing – Procurement Processes
- *Fire & Medical – Transport Services & Billing
- *HR/Employee Benefits – Claims Admin. Contract
- *Utilities – Metering Processes
- Transient Lodging Tax (TLT)

*Carried over from FY19 Audit Plan

New audits:

- Engineering – Job Order Contracting (JOC)
- Engineering – CIP Mesa (process review)
- Police – Photo Safety Program
- ITD – Software/Application Management

Follow-up reviews:

- Citywide – Procurement Card Program
- Arts and Culture – Nonprofit Support Organization Agreements
- Financial Services – Eastmark CFD
- Development Services – Fees & Charges

Other Activities:

- Citywide Cash Handling Audits (continuous)
- PCI DSS Annual Review
- Fraud & Ethics Hotline Investigations
- Consulting (limited reviews, other projects, etc.)
- Unscheduled Audits (*if requested by City Manager or City Council*)

Questions or changes?

Forward to City Council for Approval?