

## AUDIT, FINANCE & ENTERPRISE COMMITTEE

March 5, 2020

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 March 5, 2020, at 8:17 a.m.

### COMMITTEE PRESENT

Jennifer Duff, Chairperson  
Mark Freeman  
David Luna

### COMMITTEE ABSENT

None

### STAFF PRESENT

Christopher Brady  
Michael Kennington  
Holly Moseley  
Jim Smith

#### 1. Items from citizens present.

There were no items from citizens present.

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

##### 1. Police Jail Services Contract

Interim City Auditor Joseph Lisitano displayed a Power Point presentation. **(See Attachment 1)**

Mr. Lisitano explained the Jail Services Contract was bid to determine if the contractor was compliant with the contract and to review performance expectations and net savings. (See Page 3 of Attachment 1)

Mr. Lisitano stated the Jail Services contract provided services for misdemeanors and pre and post adjudicated cases. He continued by saying the advantage of the contract was not only cost savings, but operational and other efficiencies that are expected while transporting inmates to the Mesa holding facility. He reported transporting inmates to court hearings is challenging and having the contract made transportation easier because the vendor supplies the transportation. He noted the City and vendor personnel were interviewed, operations were observed at the jail and Mesa holding facility, and the contract monitoring process had been reviewed along with the transactions to verify accuracy of payments. He mentioned the vendor was compliant with the contract and cost savings were achieved. (See Page 4 of Attachment 1)

Mr. Lisitano outlined the recommendations related to improving inspection procedures and prisoner surveys. (See Page 5 of Attachment 1)

In response to a question from Committeemember Freeman regarding inspection procedure improvements, Mr. Lisitano explained Audit department staff recommended the Police Department develop an in-depth process for documenting and tracking inspection issues.

In response to a question from Committeemember Luna, Mr. Lisitano explained staff reviewed all surveys completed by inmates and that the Police Department is addressing the few issues raised but were not documenting them. He noted the survey cards were given out inconsistently so not all inmates received the chance to respond to the survey. He stated overall, the surveys showed there were not many complaints and the inmates had a positive experience.

Committeemember Luna recommended offering the survey electronically based on the education of inmates and their languages spoken.

City Manager Christopher Brady inquired about inmate responses regarding the comparison with the County. Mr. Lisitano responded that many inmates reported the experience was much better than the County.

In response to a question from Chairperson Duff, Mr. Lisitano answered there is a fixed rate of \$67 per day for each inmate and a \$35,000 monthly transportation fee that allows inmate transportation two times daily, morning and night. He noted that a five-day cost comparison report between the County and CoreCivic was provided in his report.

Mr. Lisitano confirmed that management and the Police Department have agreed with the implementations for the Jail Services Contract and have started to enforce a corrective action plan that should be completed by the end of the fiscal year. He noted the Audit Department staff will remain engaged with the Police Department throughout the process to ensure success. (See Page 6 of Attachment 1)

## 2. Benefits Medical Claims Administration Contract

Mr. Lisitano explained the Medical Claims Administration Contract audit determines if internal controls were in place to ensure accuracy, compliance, and performance expectations. He commented Mesa is self-funded and Cigna is the administrator to process insurance claims.

Mr. Lisitano provided an overview of the audit on the Medical Claims Administration Contract. He continued by saying the contract stipulates that insurance claims must be reviewed by an independent auditor. He mentioned vendor credits are provided for the City's Wellness 360 Program and to help cover the cost of independent auditors. (See Page 8 of Attachment 1)

Mr. Lisitano stated that the City relies on Cigna to test processed claims for accuracy and compliance. He explained the standard audit clause was removed from the contract and replaced with limited audit provisions, such as only allowing an independent audit to be done every two years and limiting the number of claims that can be audited. He commented the department relies on staff to notify and explain the Explanation of Benefits (EOB) to employees who do not understand the document. He stated with \$60,000,000 in claims, undetected errors could be significant. (See Pages 9 of Attachment 1)

Mr. Lisitano recommends routine testing of claims for accuracy and compliance, using data analytics to identify claim fraud, procure an independent audit to ensure compliance with the

City's plan, and revise audit provisions in the contract to allow the City to audit the services provided. (See Page 10 of Attachment 1)

In response to multiple questions from Committeemember Luna, Mr. Lisitano stated the Benefits Department is currently in the process of having an independent audit completed. He mentioned the department started looking into the process of having Benefits Department staff review insurance claims and using the contract's consulting firm to review the analytics to identify anomalies and trends. He explained staff would have to come up with a risk analysis to decipher which claims will be the best to sample.

In response to multiple questions from Chairperson Duff, Mr. Lisitano stated the independent audit will be completed by the end of the fiscal year, and that the Cigna Medical contract is up for renewal in December. He stated there are more lenient contracts with Cigna and is unsure how the vendor will respond to adding the identified recommendations into the renewed contract.

Assistant City Manager John Pombier confirmed there will be no problem asking for the recommendations to be added to the new insurance contract, and the City will go through a negotiation period with Cigna to consider the changes for renewal.

Chairperson Duff expressed appreciation for the audit process.

In response to a question from Chairperson Duff, Senior Budget Analyst Marcus Steele indicated there is roughly 15,000 claims submitted annually by active employees, their dependents, and retired employees.

Mr. Lisitano and staff found that performance results are not verified and recommended reviewing the accuracy of performance results reported by Cigna. He continued by saying if verification is not an option, controls will be provided to ensure that performance expectations are being met. (See Page 11 of Attachment 1)

Mr. Lisitano confirmed management agreed with the recommendations and implementation of corrective action plans that will be completed by September 30, 2020. He continued by saying the contract related recommendations will be addressed during the next Request for Proposal (RFP) process. He mentioned the Audit Department will remain engaged with the Benefits Department throughout the next year to ensure success with the implementation process. (See Page 12 of Attachment 1)

### 3. Agreements with Nonprofit Support Organizations (Follow-Up Review)

Mr. Lisitano presented a follow-up review for agreements with nonprofit support organizations to ensure action plans were successfully completed by the Arts and Culture Department.

Mr. Lisitano stated an audit performed in December 2018 reported there were 19 recommendations made in three categories (Written Agreements, Staff Activities and Grants). He provided a detailed list of the recommendations and noted all 19 have been successfully implemented. (See Pages 14 through 17 of Attachment 1)

In response to a question from Committeemember Luna, Mr. Lisitano reported the original audit focused on the i.d.e.a. Museum, the Mesa Arts Center Foundation, and the Museum of Natural History. He reported the Museum of Natural History showed no concerns.

2-b. Hear a presentation, discuss, and provide a recommendation on the proposed fees and charges for the following City departments: Business Services, Arts & Culture, Library Services, Falcon Field, Police, Transportation, Engineering, Development Services, and Municipal Court.

Budget Coordinator Samuel Schultz introduced Senior Budget Analyst Marcus Steele who displayed a PowerPoint presentation. **(See Attachment 2)** He commented that the fees and charges schedule is updated annually for each department.

Mr. Schultz outlined the steps involved in the fees and charges process and recommendations to be discussed for Fiscal Year 2020/21. He stated the fiscal impact of all recommendations is \$191,016 and, if recommended, would be effective July 1, 2020. (See Page 2 of Attachment 2)

Mr. Schultz mentioned there are nine departments to review and discussed recommendations of fee schedule modifications. (See Page 3 of Attachment 2)

1. Business Services

Mr. Schultz reviewed the fee modifications for the Business Services Department and the fiscal impact as discussed in the previous meeting on February 24, 2020. He noted that the recommendation of raising the Business License fee from five dollars to ten dollars is included and stated with all changes made the estimated total fiscal impact would be \$12,950. (See Page 4 of Attachment 2)

2. Arts and Culture Department

Mr. Schultz reported the Arts and Culture Department recommended eliminating the scene shop rehearsal space rental fee and the Membership Circle fees for the Mesa Arts Center Foundation from the City of Mesa Fees and Charges schedule. He continued by stating the Membership Circle fee revenue is not recognized by the City of Mesa, making the total estimated fiscal impact zero. (See Page 5 of Attachment 2)

In response to a question from Committeemember Luna, Mr. Brady explained the fee will go directly through the foundation's account instead of the City's account, making the process consistent for all foundations.

3. Library Services Department

Mr. Schultz introduced Library Director Heather Wolf who presented the library staff recommendations of eliminating overdue fines and other material fees. She stated Maricopa County Library System and the Phoenix Library, the two largest libraries in the county have eliminated overdue fines and staff recommends Mesa libraries do the same to encourage library usage and to better serve the community. She reported multiple programs have been implemented to help library cardholders pay overdue fines such as, Food for Fines, Read Down Your Fines, and automatic renewals. She mentioned library accounts become inactive when there is a balance of \$10 or more and currently there are 11,000 blocked accounts with Mesa

Public Libraries. She noted fines generate revenue, but when reviewing the amount received last Fiscal Year it came out to less than half of a percent of the total library budget. She continued by stating the overdue fines and collection agency fee contributed \$31,000 to the libraries budget. She emphasized card holders will continue to receive notifications of overdue fines and after 31 days they will be charged for the lost or damaged item(s). She pointed out the total estimated fiscal impact of the Library Services Department is -\$30,000. (See Page 6 of Attachment 2)

In response to a question from Committeemember Freeman, Ms. Wolf explained the library's plan is to stop penalizing the card holders for overdue items and only charge for the cost of materials after 31 days. She reported that some cities that went fine free had an increased rate of items returned.

Committeemember Luna expressed support for the program changes and stated it is a great opportunity for kids to continue reading while having a safe place to go during the summer.

In response to a question from Chairperson Duff, Ms. Wolf explained library cards will be suspended when account balances hit \$10 or more. She added that the accounts will remain suspended until items are returned or paid in full by the card holder.

#### 4. Falcon Field Airport

Mr. Schultz explained Falcon Field Airport is recommending a three percent increase on all current rental fees pertaining to tiedowns, hangars and storage rooms. He stated the increase will cover the ongoing operational costs, administrative costs, security deposits, pavement, utility, and insurance costs. (See Page 7 of Attachment 2)

In response to a series of questions from Committeemember Luna, Airport Director Corinne Nystrom reported Falcon Field charges \$220 per month to rent a regular hangar and \$46 per month for an open tie down. She reported tenants provided positive feedback regarding the price increases. She advised there will not be an increase in fuel flowage fees.

Mr. Schultz noted the total estimated fiscal impact is \$45,976.

#### 5. Police Department

Mr. Schultz stated the Police Department recommended eliminating fees for cassette tapes, VCR tapes and CD/DVD recordings, due to the outdated verbiage and adding audio and video medium fees. He continued by stating the audio medium fee of \$10 and the video medium fee of \$25 will be due upon receipt of the request. (See Page 8 of Attachment 2)

In response to a question from Committeemember Luna, Police Technical Services Division Manager Patrick Phelps commented the department generally processes audio and video requests by CD/DVD but eventually will be able to fill requests electronically.

In response to a question from Committeemember Freeman, Mr. Brady remarked the audio and video fees do not cover the amount of time staff puts into each request, but a flat fee is required to cover the costs of materials.

In response to a question from Committeemember Luna, Mr. Phelps explained the department overtime will transition into sending audio and video requests electronically through the GovQA program that is being created for Public Records Requests and establish a flat fee for the electronic requests.

In response to multiple questions from Chairperson Duff, Mr. Phelps reported there are 3,400 audio requests and 670 video requests annually from multiple sources such as, members of the public, media outlets, and attorneys.

Mr. Schultz reported the total estimated fiscal impact is \$10,050.

## 6. Transportation

Mr. Schultz reported the Transportation Department is recommending modifying the in-lieu fee for pavement surfacing replacement be raised from \$1.55 per square foot to \$1.70 per square foot, to match the cost charged by the contractor. (See Page 9 of Attachment 2)

In response to a question from Committeemember Freeman, Transportation Department Director RJ Zeder commented that the minimal fee increase is used as an incentive for the contractors to use City services.

Mr. Schultz noted the total estimated fiscal impact is \$19,755.

## 7. Engineering Department

Mr. Schultz reported the Engineering Department is looking to change, add and eliminate multiple items on the fees and charges schedule. He mentioned after the department worked with the utilities and communications group in the valley, they recommended adding a consulting fee and pole reservation fee for small wireless facilities. He stated the estimated consulting fee for each pole reservation is \$1,000 and they estimate 50 pole reservations per year. He reported the total estimated fiscal impact is \$50,805. (See Page 10 of Attachment 2)

In response to a question from Committeemember Luna, City Engineer Beth Huning explained with normal permit fees enough revenue is collected to assist companies throughout the building process, which would not be possible if the City only charged \$50 per pole. She continued by stating the addition of consulting fees was at the request of the industry, as well as the possible addition of pole reservation fees, to mirror the charges in Phoenix and Tucson.

## 8. Development Services Department

Mr. Schultz presented the department's recommendation for modifying the fee for residential and commercial permits valued under \$25,000. He stated the fee by number of inspections was removed from the fee schedule and replaced with a flat, three-tier scale based on the value of the permit, which was created to mimic other municipalities for permit values. (See Page 11 of Attachment 2)

In response to a question from Mr. Brady, Mr. Schultz confirmed the department is recommending a flat fee for inspections instead of an estimation.

Mr. Schultz continued by saying the department is proposing adding a fee to cover form-based code review that was originally put in place in 2012 to engage the community for redevelopment to Downtown Mesa, Pioneer Park, and the Temple neighborhoods. He mentioned the department recommended a fee of \$648 to help recover administrative costs for the time spent on code review. He advised review fees are due at the time of application submission.

#### 9. Municipal Court Department

Mr. Schultz presented the Municipal Court recommendation for modifying the Municipal Court Construction fee that is added to court case fees to help fund debt services of the building. He noted Ordinance No. 4621 implemented the debt service fee in 2008 which increased by three dollars every three years. He provided the increased fee for 2020 will be \$31.50 and the department anticipated the debt services payoff to be FY28/29. He mentioned the estimated fiscal impact is \$75,000. (See Page 12 of Attachment 2)

Mr. Schultz completed the presentation by reviewing the next steps of moving the changes, additions, and modifications forward to Council for further discussion. (See Page 13 of Attachment 2)

Chairperson Duff affirmed consensus moving this item forward to Council for consideration.

#### 3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 9:18 a.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 5<sup>th</sup> day of March 2020. I further certify that the meeting was duly called and held and that a quorum was present.

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DEE ANN MICKELSEN, CITY CLERK

# City Auditor

Presentation to the Audit, Finance, and Enterprise Committee  
March 5, 2020

*Joseph Lisitano, Interim City Auditor*



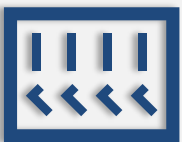
# Reports Issued Jan-Mar 2020



Police Department – Jail Services Contract



HR/Employee Benefits – Claims Administration Contract



Follow-up Review – Agreements with NPSOs

# Jail Services Contract

Report Date: 2/25/2020

An audit of contract compliance, performance expectations, and net savings.

# Jail Services Contract

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## What did we audit?

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- Reviewed the contract and other sources to identify service requirements and performance expectations.
- Interviewed City and vendor personnel; and observed operations at both the CoreCivic Mesa PD holding facility.
- Reviewed MPD's contract monitoring process and tested transactions to verify accuracy of payments.
- Analyzed financial data to determine if expected net savings were realized.

# Jail Services Contract

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What did  
we find/  
recommend?

1. Inspection procedures need improvement.
- Recommendations:
  - Develop more detailed procedures with clearly defined criteria.
  - Implement a structured and consistent process for documenting, addressing, and tracking inspection issues.
2. Use of prisoner surveys has been inconsistent.
- Recommendations:
  - Ask all inmates to complete a survey.
  - Document issues raised and follow up actions taken.

# Jail Services Contract

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## Response & Follow-up

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- Management agrees with the recommendations and is implementing corrective action plans.
- All changes should be completed by 6/30/2020.
- We will remain engaged with the department throughout the process to help ensure successful implementation.
- We will perform a follow-up review in approximately 1 year.

# Medical Claims Administration Contract

Report Date: 2/18/2020

An audit to determine if internal controls were in place to ensure accuracy, compliance, and performance expectations are being met.

# Medical Claims Administration Contract

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## What did we audit?

- Reviewed the contract to identify the requirements.
- Interviewed personnel to assess process in place for monitoring the contract.
- Tested enrollment reports and invoices for accuracy.
- Reviewed vendor credit and performance results documentation.

# Medical Claims Administration Contract

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## What did we find/ recommend?

1. Processed claims are not tested for accuracy and compliance.
  - The City's standard audit clause was removed from the contract and replaced with limited audit provisions.
  - Strong reliance on employees to detect errors and report claims issues/denials to the Benefits office.
  - Consumer surveys indicate many employees do not understand their EOBs or do not look at their EOBs.
  - With \$60 million in medical costs annually, undetected errors may be significant.



# Medical Claims Administration Contract

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What did  
we find/  
recommend?

## Recommendations:

- Routinely test claims for accuracy and compliance and consider using data analytics to identify trends and anomalies.
- Procure an independent audit of claims to ensure accuracy and compliance with City's Plan.
- Revise audit provisions in contract to allow the City to appropriately and effectively audit the services provided under the contract.

# Medical Claims Administration Contract

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What did  
we find/  
recommend?

## 2. Performance results are not verified.

### Recommendations:

- Verify the accuracy of performance results reported by Cigna.
- If verification is not possible, implement compensating controls to provide assurance that performance expectations are being met.

# Medical Claims Administration Contract

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## Response & Follow-up

- Management agrees with the recommendations and is implementing corrective action plans.
- Most changes should be completed by 9/30/2020.
- Contract related recommendation will be addressed during the next RFP process.
- We will remain engaged with the department throughout the process to help ensure successful implementation.
- We will perform a follow-up review in approximately 1 year.

# Agreements with Nonprofit Support Organizations

Report Date: February 24, 2020

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

# Agreements with Nonprofit Support Organizations

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## What did we find?

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### Recommendations from the December 2018 audit report:

- 19 recommendations in 3 categories:
  - Written Agreements
  - Staff Activities
  - Grants
- 18 of 19 recommendations have been successfully implemented.

# Agreements with Nonprofit Support Organizations

## What did we find?

### Written Agreements (Summary of 8 recs.)

Written agreements should:

- ✓ Clearly define relationships, roles and responsibilities, including:
  - ✓ Nature and limitations of relationship – separate entities with defined roles
  - ✓ Nature and amount of City staff support.
- ✓ Prohibit City staff from serving as officers or voting board members.
- ✓ Specify manner and frequency of reporting and reimbursements.

✓ Implemented

# Agreements with Nonprofit Support Organizations

## What did we find?

### Staff Activities (Summary of 8 recs.)

- ✓ Comply with all City policies, even if activity is funded by NPSO. This includes travel and any other purchases of goods or services.
- ✓ No direct use of NPSO funds by City staff:
  - ◇ No NPSO credit cards issued to employees.
  - ✓ No funds paid directly to employee by NPSO.
- ✓ Process cash/check/cc transactions using City systems and deposit funds into City accounts.
- ✓ Pass through NPSO revenue (i.e. memberships) per agreed-upon schedule.
- ✓ Process reimbursements on schedule.

✓ Implemented  
◇ In Progress

# Agreements with Nonprofit Support Organizations

## What did we find?

### Grants (Summary of 3 recs.)

- ✓ Maintain grant-related information and documents in a central repository, accessible to those who need it.
- ✓ Carefully review grant award documents to ensure grantee is accurately identified (i.e. awarded to City or NPSO).
- ✓ Develop Arts and Culture Department policies and procedures for grant administration.

✓ Implemented



# Questions?



# FEEES AND CHARGES RECOMMENDATIONS

Audit, Finance, and Enterprise Committee  
March 5, 2020

# Fees and Charges Process and Recommendation

- Market comparisons conducted
- Cost of providing service and applicability of fee evaluated
- Advisory board and partner outreach
- Full listing of recommended adjustments/additions/deletions are included in the report
- Proposed effective date: July 1, 2020
- Estimated fiscal impact of all recommendations is \$191,016

# Departments recommending modifications



Arts and Culture



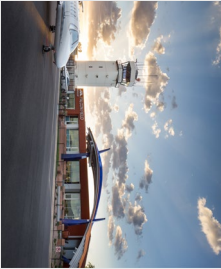
Engineering



Municipal Court



Business Services



Falcon Field Airport



Police



Development Services



Library



Transportation





# Business Services Department



Recap: ***Business Services fee modification and estimated fiscal impact recap (from 2/24/20)***

- Mobile Food Vendor/Peddler License Revision: \$0
- Business License Fee: + \$100,000
- Special Event/Small Scale Event Fee: + \$100
- Alarm Business Fee Removal: \$0
- Alarm Permit Fee Consolidation: + \$5,050
- 1<sup>st</sup> False Alarm Fee Removal: - \$39,000
- Technology Improvement Fee Removal: - \$53,200

Total Estimated Fiscal Impact:

**+ \$12,950**



# Arts & Culture Department



Recommendation: ***Modify schedule to exclude membership fee ranges and shop rehearsal space***

- ***Eliminate*** scene shop rehearsal space rental fee, it is no longer used
- ***Remove*** Membership Circle fees\* for Mesa Arts Center Foundation from the City of Mesa Fees and Charges Schedule

Total Estimated Fiscal Impact:

**+ \$0**

\*Membership fees are a pass through to the Mesa Arts Center Foundation, and the revenue is not recognized by the City of Mesa.





# Library Services Department



Recommendation: ***Eliminate overdue fines and other material fees***

- ***Eliminate*** daily overdue fines to increase cardholders, circulation, and number of items returned
- It is part of the Library's mission to provide free information and resources so that individuals can learn and be empowered. By eliminating overdue fines, more people can use library materials and services without fear of incurring fines they cannot afford to pay.
- ***Eliminate*** regular materials fee, audiovisual materials fee, and other materials fee

Total Estimated Fiscal Impact:

- **\$30,000**



# Falcon Field Airport



Recommendation: *Modify the current monthly rental rate of all tiedowns, hangars, and storage rooms*

- **Increase** fee for tiedowns, hangars, and storage rooms **by 3%** to cover increased administrative, maintenance, and operating expenses

- **Increase** fee for waiting list/security deposits **by 3%** to equal one month's current monthly rent, as per the schedule

Total Estimated Fiscal Impact:

**+ \$45,976**





# Police Department



Recommendation: **Add current media types to the schedule**

- **Remove** fees for cassette tape, VCR tape, and CD/DVD recording
- **Add** an audio medium fee of **\$10** and a video medium fee of **\$25**
- **Add** fee description "Upon receipt of request, no refund"

Total Estimated Fiscal Impact:

**+ \$10,050**

# Transportation Department



Recommendation: ***Modify in lieu fee for pavement surfacing replacement***

- ***Increase*** in lieu fee for pavement surfacing replacement ***by \$0.15*** per square yard from \$1.55 to \$1.70 for cost recovery

Total Estimated Fiscal Impact:

**+ \$19,755**



# Engineering Department



Recommendation: *Modify inspection and license related fees and charges to simplify schedule; add fees for small wireless facilities*

- **Change** section title from After Hour to Inspection Fees
- **Add** an inspection callout fee, a re-inspection fee, and a continued re-inspection fee
- **Eliminate** fee for special inspections
- **Eliminate** fee for Pinal County Water Farms agricultural land lease as the City's final sale of land occurred in 2019
- **Add** a consulting fee and pole reservation fee for small wireless facilities. Estimated 50 pole reservations annually.

Total Estimated Fiscal Impact:

**+ \$50,805**





# Development Services Department



Recommendation: ***Modify inspection related fees and charges and add fee for form-based code review***

- **Modify** residential and commercial permits valued under \$25,000 to align with other municipalities
- **Remove** fee by number of inspections
- **Add** flat fee based upon permit valuation
- **Add** fee for form-based code review to recover costs associated with review similar to other cost recovery fees
- **Add** note clarifying fees are due at the time of application

Total Estimated Fiscal Impact:

**+ \$6,480**

# Municipal Court

## Department



Recommendation: ***Modify the Municipal Court's Construction Fee***

- ***Increase*** the Municipal Court's construction fee ***by \$3*** as per Ordinance 4621 to continue paying off the debt for the construction of the Municipal Court facility

- ***Estimated*** debt payoff will be FY 2028/29

Total Estimated Fiscal Impact:

**+ \$75,000**



# Next Steps:

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- City Council will consider proposed fee amendments **May 4, 2020**
- If approved by City Council, fee adjustments are effective **July 1, 2020**



