



## AUDIT, FINANCE & ENTERPRISE COMMITTEE

March 6, 2017

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 6, 2017, at 2:33 p.m.

### COMMITTEE PRESENT

Mark Freeman  
Christopher Glover  
David Luna

### COMMITTEE ABSENT

Christopher Brady, Ex Officio

### STAFF PRESENT

Jim Smith  
DeeAnn Mickelsen  
Michael Kennington

#### 1. Items from citizens present.

There were no items from citizens present.

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

##### 1. Parks, Recreation and Community Facilities Red Mountain Multigenerational Center

City Auditor Jennifer Ruttman explained that this audit **(See Attachment 1)** was conducted to determine whether internal controls are in place and operating effectively to provide reasonable assurance that Red Mountain Multigenerational Center revenues are safeguarded from loss.

Ms. Ruttman indicated that the largest source of revenue is sales and although they have good procedures in place, some oversight needed to be addressed. She reported that four issues were identified and three had action plans. She detailed the observations and recommendations. (See Page 2 of Attachment 1)

##### 2. Community Services Housing Rehabilitation Program

Ms. Ruttman reported that the scope of this audit **(See Attachment 2)** included homeowners' rehabilitation projects completed in FY 2014 through 2016. She indicated that \$1.25 million received in Community Development Block Grant (CDBG) funding is for housing rehabilitation services, and \$650,000 was specifically used on the Homeowner's Rehabilitation Program for eligible owner-occupied homes.

Ms. Ruttman explained that a few issues were observed and recommendations were made by staff. (See Page 2 of Attachment 2) She noted that more effective internal controls have already been implemented to ensure that checks and balances are always in place.

3. Credit Card Security Annual Review

Ms. Ruttman reported that this audit (**See Attachment 3**) is performed annually to assess the City's operational procedures to protect customers' credit card information, as required by the Payment Card Industry's Data Security Standard (PCI DSS). She noted that there are currently 32 sites within the City that accept credit cards.

Ms. Ruttman pointed out that the departmental procedures at the Municipal Court did not meet PCI DSS requirements related to point-of-sale terminals, card swipe/dip devices, and access to Primary Account Numbers (PANs). She stated that staff recommended that the Court revise their procedures to include all requirements; and submit them to Accounting Services for approval, as required by Management Policy 212.

4. Information Technology Department Inventory Management Follow-up Review

Ms. Ruttman stated that this audit (**See Attachment 4**) was a follow-up review to determine whether ITD staff members have effectively implemented the action plans developed in response to the audit performed in December 2015. She explained that the audit report included two recommendations and reported that all corrective action plans have been successfully implemented.

Chairman Freeman thanked staff for the presentation.

2-b. Hear a presentation, discuss and provide a recommendation on the proposed fees and charges for various departments.

Office of Management and Budget Director Candace Cannistraro introduced Budget Coordinator Robert Baer and displayed a PowerPoint presentation related to the proposed fees and charges for six departments that will be considered at the May 22, 2017 Council meeting. (**See Attachment 5**)

Mr. Baer highlighted the following proposed changes for Arts & Culture, with a fiscal impact of \$12,400 (See Page 3 of Attachment 5):

- Modifications to event services and rental fees
- Eliminate option for percentage payments
- Add fee schedules for outdoor spaces and terraces

In response to a question from Committeemember Luna, Performing Arts Administrator Randy Vogel explained that the current fee for the exterior space at the Mesa Arts Center (MAC) is for the entire area. He indicated that special areas have now been created with separate fees for each area, ranging from \$200 to \$5,000 depending on the impact of the event. He added that the cost is a flexible scale that relies on how much impact an event has on the rest of the area. He confirmed that all users are required to supply a Certificate of Insurance, dependent on the nature of their event.

In response to a question from Chairman Freeman, Mr. Vogel confirmed that all City costs incurred by space rentals will be covered by rental fees, as well as incur net revenue.

Mr. Baer continued by reporting that Business Services proposes to pro-rate the first year of liquor license fees, to increase fairness to first-year businesses. He stated that this would cost the City \$14,400 and would be discussed further as a separate item on the Committee agenda.

Mr. Baer stated that the following changes are proposed for Development Services (See Pages 5 through 7 of Attachment 5):

- Increase Land Split Fee from \$286 plus \$26 per lot to a flat fee of \$648 - fiscal impact +\$5,000
- Establish \$100 new fee for Design Review paint change - fiscal impact (\$3,288)
- Establish a fee for Development Unit Plan modifications with a tier system – fiscal impact +\$8,888

Mr. Baer explained that Engineering proposes removing the fee schedule for the Wireless Communication Fee, as well as adding language to the Technology Fee schedule to provide more transparency. (See Page 8 of Attachment 5)

Mr. Baer stated that the Municipal Court proposes to increase the Court Construction Fee from \$25.50 to \$28.50, as outlined in Ordinance 4621, for a fiscal impact of \$75,000. (See Page 9 of Attachment 5)

In response to a question from Chairman Freeman, Mr. Baer replied that the Court Construction Fee will continue until the construction debt repayment is complete.

Mr. Baer indicated that Transportation proposes to modify the Traffic Signal and Light Deposit, which is currently based on a set schedule. He clarified that the proposed change would base the deposit and loan fee on cost of current in-stock equipment and has no anticipated fiscal impact.

Chairman Freeman thanked staff for the presentation.

2-c. Hear a presentation, discuss and provide a recommendation on the proposed utility rate adjustments.

Office of Management and Budget Deputy Director Brian Ritschel introduced Office of Management and Budget Director Candace Cannistraro, Energy Resources Department Director Frank McRae, Environmental Management and Sustainability Department Director Scott Bouchie, and Deputy Director of Water Enterprise Services Seth Weld. He displayed a PowerPoint presentation related to the proposed utility rate adjustments. **(See Attachment 6)** He noted that each utility is operated as a separate business center and will each be presented by the appropriate staff.

Mr. Ritschel gave a brief overview of the Enterprise Fund forecast period and pointed out that the combined ending Reserve Fund balance adheres to the adopted financial policy of at least

8-10% over the forecast period. He noted that the Debt Service Transfer amount for FY 16/17 is lower than budgeted due to refunding and defeasance. (See Pages 2 and 3 of Attachment 6)

Mr. Ritschel reviewed the revenue targets and reported that in FY 17/18, an increase of \$9,474,000 in revenues is needed to accommodate the estimated costs, which will be spread out across the utilities. (See Page 4 of Attachment 6)

Mr. Ritschel explained that the rate adjustment implementation can vary based on the needs of the individual utilities. He added that the impact on individual customers can vary based on the method of implementation and customer consumption.

Environmental Management and Sustainability Department Director Scott Bouchie recommended a 3.5% increase on all residential Solid Waste Utility Rates as follows:

- Residential 90-gallon barrel rate: \$0.97 per month, from \$27.79 to \$28.76
- Residential 60-gallon barrel rate: \$0.87 per month, from \$24.81 to \$25.68
- Additional black barrel rate: \$0.46 per month, from \$13.12 to \$13.58
- Residential green barrel service: \$0.23 per month, from \$6.56 to \$6.79

In response to a question from Chairman Freeman, Mr. Bouchie replied that Mesa's solid waste rates are higher than many other cities in the Valley, and advised that there is a cost-comparison later in the presentation.

Mr. Bouchie clarified that no adjustments were recommended for the Mesa Green and Clean Fee. He continued by saying that the following Solid Waste Utility Rate increases are recommended (See Page 8 of Attachment 6):

- Residential Rate increase of 3.5% for bulk and appliance pick-up programs
- Commercial Front Load Rate increase of 2.5%, based on multi-day and multi-bin discounts for larger customers
- Commercial Roll-off Green Waste Program increase of 4.9% on per ton fee, which equates to a change of \$2000 with an increase to cover costs of green fees

In response to a question from Chairman Freeman, Mr. Bouchie confirmed that Mesa pays \$36 per ton of green waste to the Salt River Landfill and that the contract is expected to run through 2028 or 2029. He noted that other transfer stations are utilized, but Salt River Landfill serves most of our needs.

Energy Resources Department Director Frank McRae announced that Mesa is celebrating 100 years of servicing residents with gas & electric utilities. He indicated that decisions related to Energy Resources are based on maintaining and enhancing the safety, reliability and efficiency of our utility systems.

Mr. McRae reported that staff proposes an increase of \$1.25 per month to the Residential System Service Charge component, which would generate additional revenue of approximately \$180,000. He noted that the increase would be 1.4% for the average customer. (See Page 10 of Attachment 6)

In response to questions from Committeemember Luna, Mr. McRae confirmed that the service area is 5.5 square miles focused in Downtown Mesa.

Mr. McRae informed the Committee that the proposed increase is the fourth increase to general rates (or non-commodity cost pass-through rates) since 2003/2004. He explained that Mesa is currently 10% or more below Salt River Power's (SRP's) rate on the residential side. He noted that no adjustments are recommended for commercial rates as Mesa seeks to achieve lower rates than SRP.

Mr. McRae pointed out that the total proposed service charge of \$10.75 remains \$9.25 per month less than SRP's comparable monthly service charge of \$20.00. He reported that our average small residential customer who uses 464 kilowatt-hour (kWh)/month, would pay 14.9% less than SRP's charge. He added that a larger customer using 1123 kWh/month would pay 9.4% less than if they were with SRP. He detailed that the commodity costs for power are passed through to the customers and are not included in the annual rate review. (See Page 11 of Attachment 6)

Mr. McRae reported that the proposed Natural Gas Utility Rate recommendations expand to all customer classes with an increase of \$0.75 per month. He explained that the focus on raising revenues through this component is to stabilize the revenue increase, rather than through consumption that would produce highs and lows. (See page 12 of Attachment 6)

In response to a question from Chairman Freeman, Mr. McRae confirmed that the rate increase for natural gas is primarily due to infrastructure. He reported that debt service costs are increasing by \$230,000 per year and go directly to infrastructure. He clarified that the cost of natural gas has decreased and the commodity cost pass-through mechanism is approximately half of a customer's bill, but is offset by the rate component increase.

Mr. McRae summarized that the average residential customer monthly bill would increase by 2.3%. He noted that the same customer in 2016, would have paid approximately \$0.56 less per month than they would if served by Southwest Gas.

In response to a question from Committeemember Luna, Mr. McRae explained that in the southeast section of Mesa, inside of the Loop 202 is serviced by Mesa and outside of the Loop 202 is serviced by Southwest Gas. He added that inside the city limits, Mesa services 60-70% of properties, while Southwest Gas services the other parts of the City.

In response to a question from Chairman Freeman, Mr. McRae replied that approximately 17,000 electrical customers and 65,000 natural gas customers are served in Mesa and the Magma service area (Pinal County).

Deputy Director of Water Enterprise Services Seth Weld presented the Water Utility Rate structure and explained that it is made up of two components: flat rate and usage charge, rounding to 1000 gallon increments. He noted that the City's goal is to maintain fixed revenues at 35-40% of total costs, and reported that FY 17/18 is projected to be 36.62% of total costs. (See Page 14 of Attachment 6)

Mr. Weld stated that in FY 2014/2015, the City implemented a fourth residential water tier and this year will be the third year of the five-year implementation. He illustrated the current

residential tier structure for FY 16/17, followed by the proposed residential tier structure for FY 17/18. (See Page 15 of Attachment 6)

Mr. Weld provided an overview of a chart (See Page 16 of Attachment 6) illustrating the residential capacity of the water distribution system and the actual demand on the system. He indicated that the water distribution system is designed to meet the peak demand of the highest users.

Mr. Weld reported that the Water Utility Rate recommendation is a 3.5% increase on all rate components, which will result in a \$0.93 per month increase in the Residential Service Charge. He noted that this increase will vary based on the customer's actual usage. (See Page 17 of Attachment 6)

Mr. Weld provided details of the Wastewater Utility Rate components. He reported that an increase of 4% is proposed on all rate components, which will result in a Residential Service Charge increase of \$0.72 per month. (See Page 18 of Attachment 6)

Mr. Ritschel indicated that staff is in the process of designing a program to attract and stabilize small businesses within the downtown area. He stated that the program would offer reduced electric and water rates by 25% on a total monthly bill. He added that the incentive would last three years, and a business must meet certain requirements to qualify for the program. He advised that staff is looking for the Audit and Finance Committee's recommendation to bring the finalized program to the full Council for review.

In response to a question from Chairman Freeman, Downtown Transformation Manager Jeff McVay replied that the Downtown Start-up Utility Rate Program is intended to attract new businesses that will create more activity in downtown. He explained that if the program is approved, it will allow a 13-month window from the date the program begins to a business's opening date. He clarified that existing businesses would not benefit from this program.

In response to a question from Committeemember Luna, Mr. McVay confirmed that there are other communities with a similar utility rate, but Mesa is unique in that it owns all of the utilities in its downtown area. He explained that SRP has incentive rates for high-end users, such as cold storage facilities, whereas Mesa is unique in incentivizing small-end users.

Mr. Ritschel noted that the due diligence of City staff and the timing of the refunding and defeasance in that one-time savings, allowed the proposed revenue targets for FY 17/18 to be reduced from those projected in the prior year. He added that the City is still able to meet the 8-10% reserves throughout the forecast period. (See Page 22 of Attachment 6)

Mr. Ritschel highlighted the anticipated impacts of the recommended utility rate/structure adjustments (See Pages 23 and 24 of Attachment 6):

- The average residential customer will pay an additional \$3.66 for monthly utilities, \$1.25 for electric, and \$.0.75 for gas
- The total revenue increase target is \$9,474,000 to the Enterprise Fund

Mr. Ritschel summarized the rate recommendations over the 8-year forecast period and explained that it would provide a steady reserve balance for any future rate changes or

programs. He stated that staff is looking for direction from the Audit, Finance and Enterprise Committee to forward these recommendations to the full Council. He reviewed the schedule for the FY 17/18 Utility Rate Changes. (See Pages 25 and 26 of Attachment 6)

It was moved by Committeemember Glover, seconded by Committeemember Luna, that staff's recommendations for FY 17/18 Utility Rates be forwarded to the full Council.

Carried unanimously.

In response to a question from Chairman Freeman related to future bond debt, Chief Financial Officer Mike Kennington reported that the future forecast has bond issuance included, but not refinancing. He clarified that the future rates are unknown and the opportunity to refinance may diminish. He added that refunding savings were not built into the forecast.

2-d. Hear a presentation, discuss and provide a recommendation on a Tax Amnesty Program.

Business Services Department Director Ed Quedens introduced Revenue Collections Supervisor Patti Oskvarek and Senior Tax Auditor Nora Collins. He provided the following facts related to the proposal for a Tax Amnesty Program:

- Mesa is in year five of the tax simplification effort statewide
- The Department of Revenue (DOR) now processes Mesa's tax returns
- Mesa is no longer accumulating Accounts Receivable (A/R) for tax debt; that now falls on DOR
- Mesa's A/R is now on a cash basis and staff is trying to clear off as much tax A/R as possible
- Mesa will be carrying less than \$3 million in debt on average each month, which will continue to decrease

Revenue Collections Supervisor Patti Oskvarek displayed a PowerPoint presentation related to the Tax Amnesty Program. **(See Attachment 7)** She highlighted that the program is for a two-month period from June 1 to July 31, 2017, to generate revenue by collecting aging tax A/R balances.

Senior Tax Auditor Nora Collins compared the program with two other agencies and highlighted the following successes (See Page 3 of Attachment 7):

- Tucson had two tax amnesty programs
  - Waived 100% of the penalty and 50% of the interest
  - 2009 amnesty program generated \$928,242 in revenue
  - 2015 amnesty program generated \$2 million in revenue
- State of Arizona conducted an amnesty program in 2015 and 2016
  - 2015 amnesty program generated \$55 million in revenue, compared to \$15 million projected

Ms. Oskvarek reported that with the Tax Simplification Initiative, collection of Transaction Privilege Tax, Use Tax and Transient Lodging Tax is now being administered by the State of Arizona since January 1, 2017. She indicated that the program will assist the Collections Unit, clear pre-transition delinquent tax A/R balances and delinquent/missing tax returns.

Ms. Collins advised that the proposed program would offer a waiver of 100% penalty and 50% interest. She stated that the projected target is 40% collection of the A/R debt, which is approximately \$1.17 million. She added that the unknown amounts of unfiled returns and unlicensed businesses cannot be projected. (See Page 5 of Attachment 7)

Ms. Oskvarek highlighted who would be eligible to participate in the Tax Amnesty Program. (See Page 6 of Attachment 7)

Ms. Collins stated that receivables created as the result of an audit are not eligible per the State of Arizona audit administration.

In response to a question from Chairman Freeman, Mr. Quedens agreed and hoped it was a one-time pain that taxpayers are feeling during the transition of administration.

Ms. Oskvarek advised that staff has been sending notices out to taxpayers to inform them and have alerts on City emails and webpages to educate residents as much as possible.

It was moved by Committeemember Luna, seconded by Committeemember Glover, to move this item on to the full Council for further discussion and action.

Carried unanimously.

2-e. Hear a presentation, discuss and provide a recommendation on prorating the first-year annual liquor license fee.

Business License and Revenue Collection Administrator Tim Meyer displayed a PowerPoint presentation related to a proposal to prorate the annual license fees for liquor licenses. **(See Attachment 8)**

Mr. Meyer provided the current liquor license fees as follows:

- \$100 Application Fee
- \$2,000 Issuance Fee
- \$500 or \$550 Annual License Fee

Mr. Meyer illustrated that staff proposes implementation of a quarterly prorated structure. (See Page 3 of Attachment 8) He indicated that five of the seven cities in the Valley currently prorate liquor license fees quarterly. He reported that the overall impact of the proposal will reduce funds by \$14,000, but staff feels it is the right thing to do for customers.

Mr. Meyer stated that staff seeks approval to update the City Ordinance and move forward with the annual fees and charges process to meet a July 1, 2017 implementation.

It was moved by Committeemember Luna, seconded by Committeemember Glover, to recommend to the Council that the annual liquor license fees be pro-rated as recommended by staff.

Carried unanimously.



3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 3:38 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 6<sup>th</sup> day of March, 2017. 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

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(Attachments – 8)

## AUDIT REPORT

## CITY AUDITOR

<b>Report Date:</b>	<b>February 6, 2017</b>
<b>Departments:</b>	<b>Parks, Recreation and Community Facilities (PRCF)</b>
<b>Subject:</b>	<b>Red Mountain Multigenerational Center</b>
<b>Lead Auditor:</b>	<b>Dawn von Epp</b>

### **OBJECTIVE**

This audit was conducted to determine whether internal controls are in place and operating effectively to provide reasonable assurance that Red Mountain Multigenerational Center revenues are safeguarded from loss.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we:

- Reviewed written policies and procedures.
- Interviewed staff members and observed operations.
- Reviewed financial data for FY2016.
- Performed detailed tests and analysis of selected transactions.

### **BACKGROUND**

Red Mountain Multigenerational Center (RMMC) provides the community with fitness opportunities, specialty interest classes, and facility space which can be rented for meetings, birthday parties, special events, etc. In FY2016, RMMC recorded over 216,000 customer visits and generated approximately \$540,000 in revenue. The largest source of revenue is membership sales; and other sources include one-time admissions, class registrations, facility rentals, and miscellaneous point of sale items. The Center also contracts with Healthways, a fitness network which pays admission fees for qualifying participants in the SilverSneakers and Prime fitness programs.

### **CONCLUSION**

In our opinion, RMMC procedures include internal controls which provide reasonable assurance that revenues are safeguarded from loss. However, to ensure all controls operate effectively, improvements in management oversight and staff training are recommended.

Our observations and recommendations are summarized below. For additional details and responses from management, please see the attached Issue & Action Plans (IAPs).

## **OBSERVATIONS & RECOMMENDATIONS**

1. **Observation:** Front desk staff do not always follow citywide and departmental cash handling policies and procedures.

**Recommendation:** Front desk staff should be trained to follow established written procedures; and management oversight should be improved to ensure compliance.

2. **Observation:** Memberships are issued to specific individuals and/or families, and are not to be shared by others; however, front desk staff do not verify the identity of members upon entry.

**Recommendation:** Member photos should be stored in the Active system and used to verify the identity of members entering the facility.

3. **Observation:** Some procedure documents are not consistent with current practices.

**Recommendation:** Management should update written procedures to provide accurate instructions for staff; and should implement a process to ensure the accuracy of these documents is maintained as operational changes occur.

4. **Observation:** Staff overtime rates charged to facility rental customers during FY 2016 and through October 2016 were not within the approved range listed on the City's "Schedule of Fees and Charges."

**Recommendation:** When this was brought to management's attention, they immediately adjusted the rate. Therefore, no further action is necessary at this time. However, management should review actual fees and charges at least annually to ensure they are within authorized limits.

## Issue and Action Plan

### Issue #1: Non-compliance with Cash Handling Procedures

#### Observations:

1. Independent dual cash counts are not always performed.
2. Cash shortages and/or overages are not identified as such and are often entered into the system incorrectly.
3. Receipts for refund transactions are not always produced and included with the daily deposit. When retained, they often do not include required customer and staff signatures.

#### Criteria:

City Management Policy 210 "Cash Handling" states:

- Section VI.A.3. *"Individual accountability for cash must be maintained throughout all cash handling operations."*
- Section VI.E.1.a. *"Administrators not directly involved with the cash receipt process should periodically review the nature and extent of overages and shortages."*

RMMC procedures provide the following direction to cashiers:

- 5.16 "RMC Deposit Procedures Checklist" directs the cashier to, *"Have the Recreation Specialist or Full Time staff member verify your deposit at this time."*
- 14.16 "RMC End of Day Cash Out" states: **"Entering Overs/Shorts"** *If your totals do not match, you will need to make an OVER/SHORT entry into ActiveNet."*
- 5.15 "RMC Cash Handling Procedures", Refund Section, states: *"Any cash refunds given at the desk must have a receipt produced and included in the cash drawer and daily deposit. Refund receipts will be signed and dated by the patron and staff issuing the refund."*

#### Comments:

13 of 41 drawer balance documents tested included the comingled funds of more than one cashier; and the funds were not individually balanced and verified by an independent cash count, as required by policy.

During testing, we noted an unusually large number of refunds, and very few over/short transactions, being processed at the end of a shift. We tested 46 of these end-of-shift refund transactions and found that 41 did not actually represent refunds to a customer, but instead represented cash shortages or overages. In some cases, a

combination of refund transactions and sales transactions were entered by the cashier to clear the over/short amount. Staff should never be allowed to create fictitious transactions for any reason. For 34 of 60 refund transactions tested, receipts were not retained. 21 of the 26 refund receipts that were retained did not have customer signatures and 22 did not have staff signatures.

When cash handling procedures are not followed, and management does not effectively monitor compliance, there is an increased risk that errors or fraud could occur without being detected.

- Recommendations:**
- 1-1. Management should ensure employee training is consistent with established policies and procedures.
  - 1-2. Management should monitor compliance with cash handling procedures on a regular basis.

**Management  
Response:**

**Action Plan #1-1:**

A staff training packet is being created which will include policies and procedures as well as a checklist for training topics that must be covered. Key staff will be trained by management, and employee and trainer will be required to sign off on all training that has been completed. Training packet to be completed by 2/6/17, with initial training beginning immediately and continuing as new staff are hired.

**Individual or Position Responsible:** Kym Otterstedt

**Estimated Completion Date:** 2/6/2017

**Action Plan #1-2:**

All staff are now required to cash out and balance their individual drawers regardless of the amount of cash, check, or credit card processed during their shift. Management staff are now reviewing refund and overage/shortage reports on a weekly basis and address discrepancies in procedure immediately. Staff are now required to include a detailed explanation for all refunds. Staff have been verbally retrained on cash handling procedures including cash drawers being individually balanced and verified. Additional formal training will be conducted and included in the training packet as indicated above beginning 2/6/17.

**Individual or Position Responsible:** Kym Otterstedt

**Estimated Completion Date:** 1/18/2017

### **Issue and Action Plan**

#### **Issue #2: Membership Usage Verification**

**Observation:** Staff does not verify the identity of members entering the facility.

**Criteria:** RMMC memberships are issued to specific individuals and/or families, and are not to be shared by others.

**Comments:** Currently, during the check-in process, there is no verification done to ensure that people using memberships are the rightful owners of those memberships.

The ActiveNet system used at the RMMC includes the ability to associate a photo with each member's record. According to staff, if they used this feature, the photo would appear on the computer screen when a member scans his or her membership card upon entering the facility. Staff could use this photo to help ensure the person using the facility is actually the member associated with that membership card.

**Recommendation:** Management should implement a process to verify the identity of members upon admittance. Consideration should be given to utilizing the photograph functionality available within ActiveNet and revising the check-in process to include matching customers to photographs.

**Management  
Response:**

**Action Plan #2:**

The department is currently evaluating the feasibility of implementing the photograph feature in Active Net, as well as the hard and soft costs associated with this implementation. A proposed plan of action will be developed and forwarded to PRCF leadership by February 28, 2017.

**Individual or Position Responsible:** Kym Otterstedt, Leslie Clark, Robert Howerton

**Estimated Completion Date:** 2/28/2017

### **Issue and Action Plan**

#### **Issue #3: Procedure Documents Outdated/Inaccurate**

**Observation:** Some procedure documents are inconsistent with current practices and/or include outdated references.

**Criteria:** Written procedures should be accurate and complete, to ensure that employees perform critical and/or complex tasks correctly.

**Comments:** Extensive procedure documents exist at RMMC, but we found a few that require updates. In some cases, good internal controls have been incorporated into daily processes, but have not yet been documented in the existing written procedures. There are also references to previous systems, and some content that is not completely accurate.

Most of the documents we identified as outdated were corrected during the course of the audit; however, there is no process in place to ensure they are actively maintained as future operational changes occur.

**Recommendations:**

- 3-1. Management should update all written procedures to include accurate instructions for staff.
- 3-2. Management should implement a process to ensure that procedure documents are actively maintained as operational changes occur.

**Management Response:**

**Action Plan #3-1:**

Procedures that needed correction had been immediately updated and sent to the auditor. Three procedures, 5.16, 14.16 and 5.15 were reviewed at the time of audit, but are currently under re-review for modifications, and will be completed by 2/6/17 for inclusion in the staff training packet.

**Individual or Position Responsible:** Kym Otterstedt

**Estimated Completion Date:** 2/6/2017

**Action Plan #3-2:**

All procedures will be reviewed on annual basis in December, with financial and Active Net procedures receiving an additional mid-year

review in June. Procedures will be revised off schedule as necessary. Current documents were reviewed at the time of the audit, but are being re-reviewed at the present time.

**Individual or Position Responsible:** [Kym Otterstedt](#)

**Estimated Completion Date:** [2/6/2017](#)



## AUDIT REPORT

## CITY AUDITOR

**Report Date:** February 23, 2017  
**Department:** Community Services/Housing & Community Development Division  
**Subject:** Housing Rehabilitation Program  
**Lead Auditor:** Karen Newman

### **OBJECTIVE**

This audit was conducted to determine whether adequate controls are in place to ensure compliance with Housing Rehabilitation Program requirements for eligibility, procurement, and expenditures.

### **SCOPE & METHODOLOGY**

The audit scope included Homeowners Rehabilitation projects (under the Housing Rehabilitation Program) completed in fiscal years 2014 through 2016. To meet our objective, we interviewed staff members, reviewed Housing and Community Development policies and procedures, reviewed project documentation, and performed other tests and procedures as necessary.

### **BACKGROUND**

The City of Mesa's Housing Rehabilitation Program is administered by the Housing and Community Development Division of the Community Services Department. It is funded by the Community Development Block Grant (CDBG) awarded to the City by the U.S. Department of Housing and Urban Development (HUD). In FY 2016, the City was awarded a total of \$3.2M in CDBG funding. Of that amount, the City Council allocated \$1.25M for housing rehabilitation activities, of which \$650,000 was used specifically on the Homeowner's Rehabilitation Program for eligible owner-occupied homes.

Each fiscal year, the City adopts an Administrative Plan for the Homeowners Rehabilitation Program. This document outlines the specific requirements for participation in the program, contractor selection and performance, and procedures for placing loans/liens on the properties. The Plan is designed to ensure compliance with federal guidelines, while meeting the goals of the program, which include:

- Eliminate health and safety hazards in homes
- Benefit low-income, very low-income, extremely low-income, and disabled residents
- Improve neighborhoods and encourage long-term stability
- Address energy efficiency issues

### **CONCLUSION**

In our opinion, internal controls are in place and operating effectively to provide reasonable assurance that Homeowners Rehabilitation projects are conducted in accordance with the majority of applicable requirements. However, improved controls are needed to ensure that exceptions to program requirements are adequately approved and documented, and that project change orders are signed by the homeowner before work proceeds. A summary of our observations and

recommendations is included below. For additional details and responses from management, please see the attached Issue and Action Plans (IAPs).

**OBSERVATIONS & RECOMMENDATIONS:**

1. **Observation:** Exceptions to program requirements are not always documented as required by the Administrative Plan. The Plan allows for exceptions when warranted, but expressly states that exceptions must be documented and approved by the Rehab Committee. We found exceptions granted in all areas of the program (i.e. eligible participants, properties, expenses, contracting, liens); however, the project files contained no documentation for the exceptions.

**Recommendation:** Exceptions to program requirements should be documented and approved by the Rehab Committee. Additionally, the "Housing Rehabilitation Program Checklist" should include a step to ensure that the project file includes documentation for exceptions granted.

2. **Observation:** Project change orders were not signed by the homeowner and/or contractor before work proceeded as required by the Administrative Plan. Even though the homeowner is not required to pay for change orders, and Housing Services now records change order amounts as grants instead of liens, the homeowner must approve of any work to be done before the contractor proceeds.

**Recommendation:** Required signatures should be obtained for all change orders before work proceeds.

## Issue and Action Plan

### **Issue #1: Exceptions to Program Requirements Not Documented**

**Observation:** Exceptions to program requirements are not always documented in the project files, as required by the Administrative Plan.

**Criteria:** The Administrative Plans for FY13/14 and FY14/15 state:  
*"In cases of particular need and/or special extenuating circumstances, the Loan Review Committee may grant exceptions to any of these rules. In case an exception is granted, a "Memo to the File" stating why the exception was warranted will be placed in the project file."*

The Administrative Plan for FY15/16 states:  
*"In cases of particular need and/or special extenuating circumstances, the Rehab Committee may grant exceptions to any of the guidelines and rules stated in the Housing Rehabilitation Administration Plan. In case an exception is granted, a memo to the file stating why the exception was warranted will be placed in the project file."*

**Comments:** To ensure compliance with federal regulations, the Homeowners Rehabilitation Program Administrative Plan contains specific language regarding participant, property, and expense eligibility; loan/lien filings; and contracting requirements. When exceptions are warranted, documentation regarding the reason for the exception, along with proper approval, should be included in the project file. When testing for compliance with program requirements, we found that the following exceptions were made, but were not documented as required:

- 4 exceptions to the requirement that a manufactured home must be built before June 15, 1976.
- 2 exceptions to the requirement that mortgage payments must be current.
- 4 exceptions to the requirement that "the Major Rehab Program will allow up to \$50,000 of repairs to qualifying homes of low-income homeowners."
- 1 exception to the requirement that "Homeowners who have previously participated in the program cannot participate again as long as there are other applicants on the waiting list, and/or if the original lien has not been forgiven."
- 1 exception to the requirement that "All change orders over \$1,500 (Sub-contractor's price) will require three bids."
- 4 exceptions to the requirement that "The contract will be for sixty (60) working days. The contractor may request in writing, an

extension for extenuating circumstances beyond the contractor's control. The Housing Supervisor will deny or grant in writing, an extension for a sufficient amount of time to complete the performance."

- 1 lien exception on an NSP home purchase rehab.
- Lien exceptions for all Emergency Repair Program projects – a policy change was made to process these as grants instead of liens, but the Plan was not amended to reflect this change, and the exception was not documented in the project files.

**Recommendation:** Housing Services should implement more effective internal controls to ensure that exceptions to program requirements are documented in the project files. For example, the "Housing Rehabilitation Program Checklist" should be revised to include a step to ensure all exceptions are documented as required.

**Management  
Response:**

**Action Plan #1:**

More effective internal controls have already been implemented as demonstrated on the updated Housing Rehabilitation Program Checklist, which is attached. Please see attached checklist for reference.

**Individual or Position Responsible:** Housing Rehab Specialist and Supervisor

**Estimated Completion Date:** January 2017

## **Issue and Action Plan**

### **Issue #2: Required Signatures Not Obtained for Change Orders**

<b>Observation:</b>	Project change orders were not signed by the homeowner and/or contractor prior to work proceeding.
<b>Criteria:</b>	<p>The Administrative Plans for FY13/14, FY14/15, &amp; FY15/16 state:</p> <p><i>"The Homeowner must be informed of any changes to the contract or other problems encountered during the rehabilitation work, and sign the Change Order form before work proceeds."</i></p> <p>The Administrative Plan for FY15/16 states:</p> <p><i>"The contractor will sign the Change Order, have the homeowner sign the Change Order, and return it to the HCD Rehab office before proceeding with any work."</i></p>
<b>Comments:</b>	<p>These requirements are intended to prevent unauthorized change orders and unnecessary program expenses, which could preclude other homeowners on the waiting list from receiving necessary repairs.</p> <p>30 of 33 change orders reviewed did not have required signatures.</p>
<b>Recommendation:</b>	Required signatures should be obtained for all change orders before work proceeds. Or, if appropriate, management should re-evaluate the change order process and related risks, and update the Administrative Plan to reflect current practices.
<b>Management Response:</b>	<p><b>Action Plan #2:</b></p> <p>The Administrative Plan was updated July 1, 2016 to state change order approval from the homeowner is required before work proceeds. Please see attached page 20 from the Administrative Plan with this requirement. Also attached is the Change Order form with a signature line for the homeowner's authorization.</p> <p>The following new protocol ensures that internal controls are put in place to effectively utilize these tools.</p>

### **Change Orders**

Coordination of all Change Orders will be handled by the Housing Rehab Specialist for all projects.

Prior to any work being performed, all Change Orders will be submitted to the Housing Rehab Specialist.

The Housing Rehab Specialist will ensure:

1. The requirements for submission have been met.
2. If not already performed, a site inspection will be performed to verify the necessity of the Change Order.
3. The proper documentation will be attached (including the site inspection verification).
4. City approval (budget & scope) must be approved by: a). the Inspector; b). the Housing Rehab Specialist; and c). Program Supervisor.
5. After the Program Supervisor has approved, the Homeowner must also approve.
6. After Step #5, the Housing Rehab Specialist will issue the Notice to Proceed (signed by the Housing Rehab Specialist and the Program Supervisor) on the Change Order with copies to the Homeowner.

Notes: Step #4 – The Inspector signature verifies the necessity & the scope/budget; the Housing Rehab Specialist signature verifies the project file, process and documentation are in place and that all steps are performed correctly; the Program Supervisor signature provides the Ok to proceed.

This protocol has two separate check & balances by the Housing Rehab Specialist & Program Supervisor ensuring system success.

**Individual or Position Responsible:** Housing Rehab Specialist and Supervisor

**Estimated Completion Date:** November 2016

# HOUSING REHABILITATION PROGRAM CHECKLIST

PLACE ITEMS IN FILE FROM LEFT TO RIGHT

HOMEOWNER: \_\_\_\_\_ ADDRESS: \_\_\_\_\_  
DATE APPROVED TO PROCEED: \_\_\_\_\_ FILE CASE NUMBER: \_\_\_\_\_

## SECTION I

_____ *Environmental Report	_____ *Rehab Committee Approval	_____ *SHPO
_____ *SAM (System for Award Management) Run same day contract is signed	_____ Final Sub-Contractor List	_____ Proposed Project Schedule
_____ Correspondence, Notes, Etc.	_____ *Contact Sheet	_____ Other

## SECTION II

_____ *Application	_____ *Verification of Ownership Deed/Title <u>  X  </u> Real Quest	_____ Year House was Built
_____ *Recent Mortgage Statement	_____ *Homeowners Insurance	_____ *Claims Against HO Insurance Yes _____ No _____
_____ *Latest Power Bill	_____ *Lot Rental Agreement Mobile or Manufactured Home	_____ CCR'S Home Owner's Association
_____ * Photo Identification	_____ * Verification of Income	_____ * Recent Two Yrs. Tax Returns
_____ * Two Months Bank Statements	_____ * HUD Income Determination (From all sources)	_____ * Legal Residency Statement or Transcripts
_____ * Privacy Notice	_____ * Memo of Understanding	_____ Receipt of Lead Hazards Notice Signed by Homeowner

## SECTION III

_____ *Contractor's Quotation Specifications Included	_____ *Homeowner has Approved Quotation and Specifications	_____ *Office Estimate Full Rehabilitation Only
_____ *Contractor Selection If chosen from rotating list, print current list	_____ *Invitation to Bid Full Rehabilitation Only	_____ *Pre-Bid Sign-in Sheet Full Rehabilitation Only
_____ Bid Abstract Full Rehabilitation Only	_____ *Bidder is an LLC - Affidavit	_____ NOTICE TO PROCEED

## SECTION IV

_____ Financial Summary Sheet	_____ *Contract	_____ Change Orders
_____ Lien Waivers	_____ Invoices and Payments	_____ Warranties

## SECTION V - FULL REHABILITATIONS ONLY

_____ *Opportunity to Rescind	_____ *Deferred Payment Agreement (5YR or 10YR)	_____ *Deed DPL
_____ *Deed Perm	_____ Permeant Lien Promissory Note	_____ Payment Agreement/Conditions

## SECTION VI

_____ Building Permit	_____ Pest Inspection Certification	_____ Pest Treatment Report
_____ Inspection Log Signed by Inspector	_____ Punchlist	_____ Certificate of Release
_____ MBE/WBE (HUD)	_____ Sec.3 (HUD)	_____ Other

Notation to File:

- 
- 

**\*MUST BE IN FILE PRIOR TO "NOTICE TO PROCEED."**

File Closed and By: \_\_\_\_\_

Date: \_\_\_\_\_

File Audited By: \_\_\_\_\_

Date: \_\_\_\_\_

Per HUD regulations 24 CFR85.36 (h), any contract that exceeds the simplified acquisition threshold, (currently set at \$150,000) will require any bidder and/or contractor to provide: (1) a bid guarantee from each bidder equivalent to ten percent of the bid price, (2) a performance bond on the part of the contractor for 100 percent of the contract price, and (3) a payment bond on the part of the contractor for 100 percent of the contract price.

### **Change Orders**

Change Orders may be requested by the contractor for items that were not included in the original work write-up, due to unforeseen health, safety, or code violations. The contractor must have an approved Change Order from the Housing Rehabilitation Coordinator. The contractor will sign the Change Order, have the homeowner sign the Change Order, and return it to the HCD Rehab office before proceeding with any work. In the HCD Coordinator's absence, a designee or a member of the Rehab Committee may approve the Change Order.

The homeowner must be informed of any changes to the contract or other problems encountered during the rehabilitation work, and sign the Change Order form before work proceeds. All Change Orders over \$1,500 (sub-contractor's price) will require three bids.

If for any reason changes are approved during construction at no additional cost, a zero Change Order must be completed following the same procedure as established for a regular Change Order.

### **Section 3 and MBE/WBE Contractors Participation**

The contractor and all sub-contractors shall comply with Section 3 of the HUD Act of 1968, which requires that, to the greatest extent feasible, economic opportunities must be created for low- and very-low-income persons and Section 3 businesses. This will be done by targeting low-income areas, public-housing residents, homeless shelters, placing ads in minority



**CDBG Homeowner Rehabilitation Program**

**Change Order #** \_\_\_\_\_

**CLIENT:** \_\_\_\_\_ **PROJECT #:** \_\_\_\_\_

**WORK DESCRIPTION:** \_\_\_\_\_  
\_\_\_\_\_

**REASON:** \_\_\_\_\_

**COST:**

<b>SUB CONTRACTOR PROPOSAL</b>	_____
10% Overhead	<u>\$0.00</u>
15% Profit	<u>\$0.00</u>
<b>SUBTOTAL</b>	<u>\$0.00</u>
<b>SALES TAX (5.2325%)</b>	_____
<b>TOTAL:</b>	<u>\$0.00</u>

<b>CONTRACTOR PROPOSAL</b>	_____
<b>SALES TAX (5.2325%)</b>	_____
<b>TOTAL:</b>	<u>\$0.00</u>

Any person who knowingly makes a false statement or a misrepresentation in the use of funds for the purpose of Federal Financial Assistance, or causes a false statement or misrepresentation to be made, shall be subject to a fine of not more than \$5,000 or by imprisonment for not more than two years, or both, under provisions of the U.S. Criminal Code.

**VERIFICATION:**

**Homeowner:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Contractor:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Approved:** X \_\_\_\_\_ **Date:** \_\_\_\_\_

**OFFICE USE ONLY:**

<b>CONTRACT PRICE:</b>	<u>\$0.00</u>
<b>APPROVED C.O.'S:</b>	<u>\$0.00</u>
<b>SUB TOTAL:</b>	<u>\$0.00</u>
<b>THIS CHANGE ORDER:</b>	<u>\$0.00</u>
<b>TOTAL:</b>	<u>\$0.00</u>

## AUDIT REPORT

## CITY AUDITOR

<b>Report Date:</b>	<b>February 27, 2017</b>
<b>Department:</b>	<b>Citywide</b>
<b>Subject:</b>	<b>Annual Credit Card Security Review</b>
<b>Lead Auditor:</b>	<b>Karen Newman</b>

### **OBJECTIVES**

Our annual credit card security review is an assessment of the City's operational efforts to protect customers' credit card information, as required by the Payment Card Industry's Data Security Standard (PCI DSS). Specifically, our objectives were to determine whether:

- City departments maintain and enforce policies and procedures that meet PCI DSS requirements.
- Individuals who handle credit card information are adequately screened and trained.
- Management has effectively implemented all corrective action plans developed in response to prior PCI DSS reviews.

### **SCOPE & METHODOLOGY**

This review was focused on assessing compliance with the operational (non-IT) requirements of PCI DSS, which apply to credit card handling activities at the City's 32 credit card acceptance sites. Specific criteria and guidance for assessing compliance were provided by the PCI Security Standards Council's *Payment Card Industry (PCI) Data Security Standard Requirements and Security Assessment Procedures v3.2*, April 2016. To accomplish our objectives, we interviewed staff members; observed operations and processes; and reviewed policies, procedures, document inventories, and training records.

### **BACKGROUND**

As a merchant that accepts credit cards, the City is required to comply with PCI DSS. Failure to do so could place our customers at risk for identity theft and could result in credit card companies levying fines or prohibiting the City from accepting credit card payments. To help ensure compliance citywide, the Accounting Services Division is responsible for maintaining Management Policy 212 – Credit Card Handling (MP 212) and training individuals on PCI DSS requirements and credit card handling procedures. They also manage the City's merchant accounts. The Information Technology Department (ITD) is responsible for ensuring the City's compliance with the IT-related requirements of the PCI DSS.

In April 2016, the PCI DSS was updated to Version 3.2, which provided additional clarification and guidance on the requirements.

## **CONCLUSION**

### **Prior Year Issues:**

Our 2016 report included specific recommendations, which were necessary to ensure continued compliance with PCI DSS requirements. One of the action plans has been implemented, but one was still in progress at the time of this follow-up review. Additional information regarding the status of prior year action plans is presented in the attached Appendix.

### **New/Continuing Issues:**

Overall, we found that City credit card handling operations are PCI DSS compliant. However, we found one issue that continues to warrant management's attention. The issue is summarized below; and additional details are presented in the attached Issue and Action Plan (IAP). Next year's review will include follow-up testing to verify that the department has successfully resolved the issue.

## **SUMMARY of ISSUE & RECOMMENDATION**

Written procedures at the Municipal Court do not meet PCI DSS v3.2 requirements related to POS terminals, card swipe/dip devices, and access to Primary Account Numbers (PANs). We are recommending that the Court revise their procedures to include all requirements; and submit them to Accounting Services for approval, as required by Management Policy 212.

## Issue and Action Plan

### Issue #1: Procedures Do Not Meet PCI DSS Requirements

**Observation:** Departmental procedures at the Municipal Court as of January 2017 do not meet PCI DSS v3.2 requirements.

**Criteria:** "PCI DSS v3.2 Requirements and Security Assessment Procedures" requires that the following directives be contained within procedures (summarized):

- Requirement 3.3.a: A list of roles that need access to displays of more than the first six/last four (includes full PAN) is documented, together with a legitimate business need for each role to have such access.
- Requirements 9.9 & 9.9.2: Maintain an up-to-date list of devices and periodically inspect device surfaces to detect tampering or substitution. The procedures should include the steps for inspecting devices and the frequency of inspections.

**Comments:** PCI DSS v3.1 includes requirements related to procedures and training content for locations that utilize Point of Sale (POS) terminals and/or card swipe/dip devices to gather cardholder data during sales transactions. The requirements state that procedures must include a list of roles that need access to displays of full Primary Account Numbers along with the business need for such access.

Accounting Services provided these requirements to all applicable departments in 2015, and requested that they update their procedures accordingly.

During our 2016 PCI DSS review, we found that the Municipal Court had not yet updated their procedures; and, as of January 2017, they still had not done so.

**Recommendation:** The Municipal Court should incorporate the following PCI DSS requirements into their procedures and should submit the revised procedures to Accounting Services for approval, as required by Management Policy 212:

- Maintain an up-to-date list of devices and periodically inspect device surfaces to detect tampering or substitution. The procedures should include the steps for inspecting devices and the frequency of inspections.
- Maintain an up-to-date list of roles that need access to displays of full Primary Account Numbers (PANs), along with the business need for such access.

**Management  
Response:**

**Action Plan:**

The Mesa Municipal Court plans on creating procedures and an inspection log on how to inspect the Point of Sale (POS) terminal.

The Mesa Municipal Court's Credit Card Handling Procedures will be updated to include a list of the roles and the business needs for issuing court ordered bond refunds processed by the Mesa Police Department (MPD). The only time the full credit card number access is utilized is with credit card bonds that were processed through the MPD.




**Individual or Position Responsible:**

Court Supervisor Edna Ramon is the cash custodian for the Mesa Municipal Court. Positions authorized to perform the inspection and maintain documentation are as follows:

- Court Supervisors assigned to the Customer Service Division
- Lead Court Specialists assigned to the Customer Service Division
- Court Financial Team members assigned to the Customer Service Div.

**Estimated Completion Date:** March 9, 2017

## APPENDIX / ACTION PLAN IMPLEMENTATION STATUS REPORT

 = Implemented  = In Progress  = Not Implemented		
<b>2016 Recommendations &amp; Responses</b>		<b>Implementation Status</b>
<b>CAP #1: Non-compliance with credit card training requirements.</b>		
<b>Recommendation:</b> 1-1. Departments with employees who handle credit cards should implement a reliable process to ensure they maintain compliance with the training requirements of Management Policy 212.  1-2. Accounting Services should track compliance with credit card training requirements and should implement a reliable process to ensure employees and supervisors are notified when they are due for annual training.		<b>Implemented</b> The majority of Credit Card Handlers are now current with training and Departments have implemented reliable processes to ensure they maintain compliance with the training requirements. Additionally, Accounting Services now tracks training requirements compliance and notifies employees and supervisors when they are due for annual training.
<b>CAP #2: Procedures and training materials require updates.</b>		
<b>Recommendation:</b> 2-1. Library Services and Municipal Court should incorporate the new POS terminal and card swipe/dip device requirements into their procedures and should submit the updated procedures to the Accounting Services Division for approval, as required by Management Policy 212.  2-2. Municipal Court should include in their procedures a list of roles that need access to displays of full Primary Account Numbers (PANs) along with the business need for such access. The PAN masking requirements should also be included.		<b>In Progress</b> Library Services has updated their policies and procedures to include the necessary requirements.  However, the Municipal Court still needs to include the new POS terminal and card swipe/dip device requirements; and also needs to include a list of roles that need access to displays of full Primary Account Numbers (PANs) along with the business need for such access.

## **FOLLOW-UP REVIEW**

## **CITY AUDITOR**

<b>Report Date:</b>	<b>December 21, 2016</b>
<b>Department:</b>	<b>Information Technology Department (ITD)</b>
<b>Subject:</b>	<b>Procurement and Inventory Management Processes</b>
<b>Lead Auditor:</b>	<b>Dawn von Epp</b>

### **OBJECTIVE**

The objective of this review was to determine whether ITD has effectively implemented the action plans presented in their response to our December 2015 audit of procurement and inventory management processes.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we reviewed training materials, validated asset tracking reports, and interviewed staff members and supervisors involved in the asset tracking process.

### **BACKGROUND**

On December 8, 2015, we issued an audit report on ITD's procurement and inventory management processes. The objective of that audit was to evaluate the effectiveness of internal controls related to those processes. We found that internal controls were in place and operating effectively to provide reasonable assurance that IT assets are purchased, stored, deployed, and inventoried in accordance with City and departmental policies. However, we also identified some opportunities for improvement in the accuracy and completeness of chain of custody and location data recorded in the asset management system.

The audit report included the following two recommendations:






1. ITD staff members should comply with established procedures for documenting the chain of custody of assets removed from the Stockroom. This includes updating the final location after deployment.
2. ITD managers should actively monitor compliance with established procedures for updating SMART asset location information, both during and after deployment.

The department agreed with the recommendations and developed corrective action plans.

### **CONCLUSION**

All corrective action plans associated with this audit have been successfully implemented. Additional details are presented in the attached Appendix.

## APPENDIX

 = Implemented	 = In Progress	 = Not Implemented
<u>Corrective Action</u>		<u>Implementation Status</u>
<b>CAP#1: Accuracy and Completeness of SMART Records</b>		
<p><b>Recommendation 1-1:</b> ITD staff members should comply with established procedures for documenting the chain of custody of assets removed from the Stockroom. This includes updating the final location after deployment.</p> <p><b>Management Response:</b> Re-train ITD deploy staff and their supervisors/managers on the procedures for asset check-out and location updates. Provide training in person and follow up with documentation in the Learning Center. Plan for refresher training every 6 months.</p>	<p><b>Implemented</b></p> <p>Training was delivered to deployment teams in February, March and May 2016.</p> <p>The department chose to use a SharePoint site, rather than the Learning Center, to maintain the training documents; but the result is the same. Also, refresher training is now done on an as-needed basis, rather than every 6 months.</p>	
<p><b>Recommendation 1-2:</b> ITD managers should actively monitor compliance with established procedures for updating SMART asset location information, both during and after deployment.</p> <p><b>Management Response:</b> Provide automated report to ITD Managers on a periodic basis (monthly) to identify records in which their reporting staff are listed in the location data field of the asset record; this report will be a means for managers to monitor their staff's compliance for updating asset location information. Stockroom staff will also conduct periodic compliance reviews via same report and escalate discrepancies to their supervisor for follow up action.</p>	<p><b>Implemented</b></p> <p>Automated reports were developed and are now emailed weekly to supervisors, deployment team managers, and Stockroom staff.</p>	



# City of Mesa

FY 2017/18

Fees and Charges Recommendations

Audit, Finance and Enterprise Committee

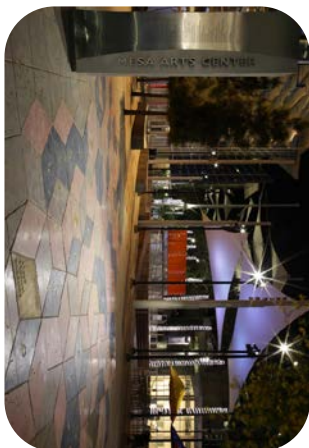
March 6, 2017



mesa·az

Presented by the Office of Management and Budget

# Departments Proposing Changes



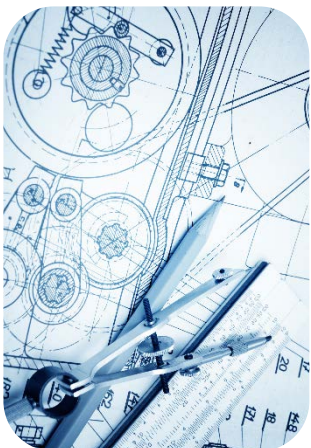
Arts & Culture



Business  
Services



Development  
Services



Engineering



Municipal  
Court



Transportation



# Arts & Culture

## Modifications to Event Services and Rental Fees

- Reviewed rental fees for similar facilities to ensure competitiveness

Eliminate option for percentage payments

- Percentage option rarely utilized for rentals of Ikeda, Piper, Nesbitt/Elliott, and Farnsworth Theaters

Add fee schedules for Outdoor Spaces and Terraces

- Demand increasing for these spaces

Fiscal Impact: +\$12,400





# Business Services

## Revenue Collection Operations

Change schedule to prorate first-year of Liquor Licenses

- Increase fairness to first-year Liquor License businesses

Fiscal Impact: (\$14,400)



# Development Services

## Planning

Increase Land Split Fee from \$286 plus \$26 per lot to \$648

- Align fee with other fees which require similar amounts of work by City staff

Fiscal Impact: +\$5,000



# Development Services

## Planning (continued)

### Establish fee for Design Review - Paint Changes

- Currently under Administrative Review Fee of \$648
- Staff suggest aligning this new fee, since these fees require less staff time
- Survey of other Valley cities with similar fees: \$87 to \$253
- Proposed new fee: \$100
- Fiscal Impact: (\$3,288)

# Development Services

## Planning (continued)

### Establish fee for Development Unit Plan Modifications

- Development Unit Plans added to schedule July 2013
- Since creation, amendments have been proposed to these plans
- Proposed minor amendment: \$648
- Proposed major amendment: \$2,500
- Fiscal Impact: +\$8,888



# Engineering

Remove fee schedule for Wireless Communication Fee

- The use of facilities for wireless communications will be negotiated through individual license agreements

Add language related to Technology Fee to schedule

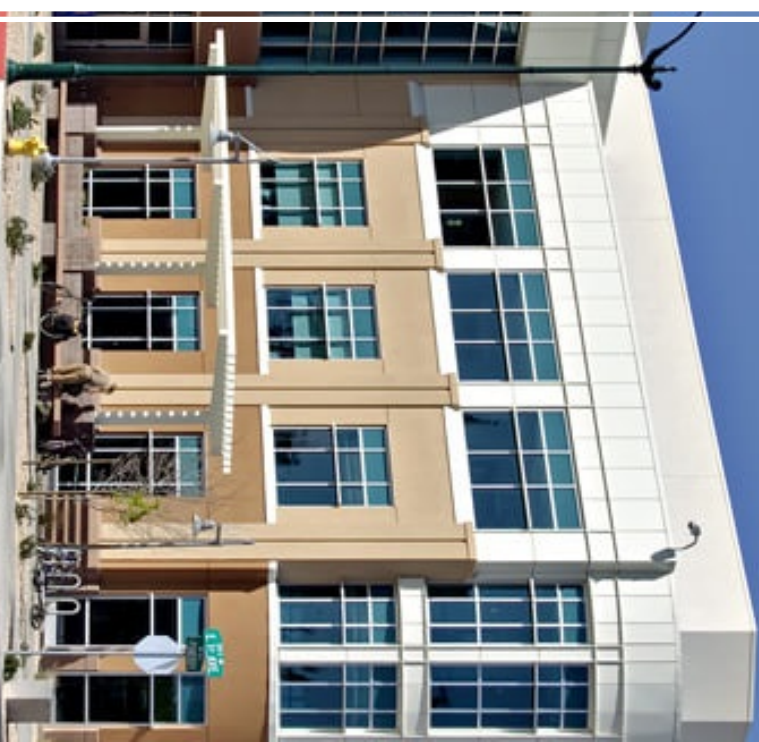
- Provide clarification and guidance to the public

No anticipated fiscal impact



# Municipal Court

- Increase Court Construction Fee from \$25.50 to \$28.50
  - Court Construction Fee pays for the debt associated with the construction of the court facility
  - Based on Ordinance 4621: “this fee shall be increased July 1, 2008 and every third year thereafter in the amount of three dollars (\$3.00)”
- Fiscal Impact: +\$75,000





# Transportation

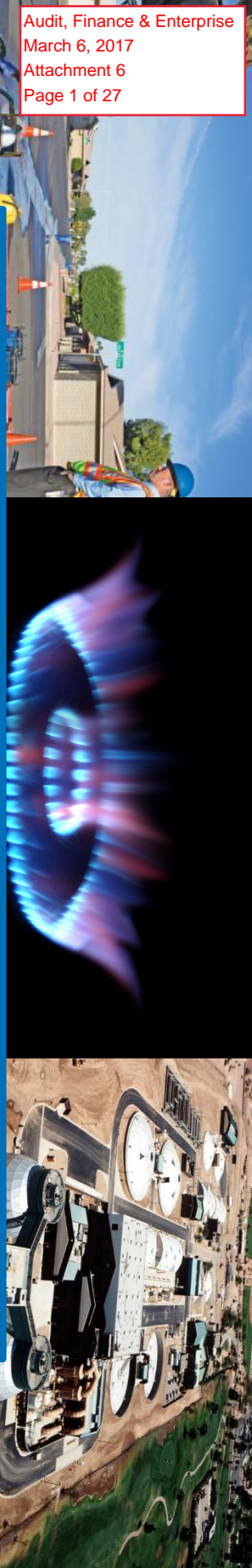
- Modify Traffic Signal and Streetlight Deposit and Loan Fees
  - Current fees based on set schedule
  - Proposed change would base Deposit and Loan Fee on cost of current in-stock equipment
- No anticipated fiscal impact











# City of Mesa

FY 2017/18

## Utility Rate Recommendations

Audit, Finance and Enterprise Committee

March 6, 2017

Presented by the Office of Management and Budget  
with the Environmental Management and Sustainability,  
Energy Resources and Water Resources Departments



# Enterprise Operations

Each utility is operated as a separate business center

Combined Ending Reserve Balance adheres to the adopted financial policy of at least 8-10% over the forecast period

Reserve balance can be used to smooth rate adjustments year-to-year

Reserve balance can be used to phase in new programs or changes in operations

# Total Enterprise Fund

Sources of Funding	FY 15/16 Actuals	FY 16/17 Year End Estimate	FY 17/18 Forecast	FY 18/19 Forecast	FY 19/20 Forecast
<b>Total Sources</b>	<b>\$334.8</b>	<b>\$351.8</b>	<b>\$364.3</b>	<b>\$377.9</b>	<b>\$393.3</b>
<b>Uses of Funding</b>					
Operating Expenditures	\$145.4	\$162.2	\$169.5	\$174.0	\$180.8
Capital Transfer	\$3.3	\$5.5	\$6.3	\$4.4	\$3.6
Debt Service Transfer	\$54.9	\$55.0	\$77.9	\$84.8	\$87.1
<b>Expenditure Subtotal</b>	<b>\$203.5</b>	<b>\$222.7</b>	<b>\$253.6</b>	<b>\$263.2</b>	<b>\$271.5</b>
General Fund Transfer	\$99.7	\$103.9	\$106.5	\$109.0	\$111.7
Lifecycle/ Infrastructure Transfers	\$6.5	\$6.8	\$7.2	\$7.5	\$7.9
Economic Investment Fund Transfer	\$1.6	\$5.0	\$4.5	\$4.5	\$4.6
BABS Transfer	\$1.7	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total Uses</b>	<b>\$313.1</b>	<b>\$338.4</b>	<b>\$371.7</b>	<b>\$384.2</b>	<b>\$395.6</b>
<b>Net Sources and Uses</b>	<b>\$21.7</b>	<b>\$13.5</b>	<b>(\$7.4)</b>	<b>(\$6.3)</b>	<b>(\$2.3)</b>
Beginning Fund Balance	\$47.0	\$68.7	\$82.1	\$74.7	\$68.4
Ending Fund Balance	\$68.7	\$82.1	\$74.7	\$68.4	\$66.1
Ending Fund Balance Percent*	20.3%	22.1%	19.4%	17.3%	16.0%

\*As a % of Next Fiscal Year's Expenditures

Note: This forecast does not include an economic correction.

# Revenue Targets

Forecasted expenses are compared with forecasted revenues based on current rates and projected customer growth

In FY 2017/18, the following increase in revenues is needed to accommodate the estimated costs

Utility	Revenue
Electric	\$180,000
Natural Gas	\$467,000
Water	\$4,491,000
Wastewater	\$2,846,000
Solid Waste*	\$1,490,000
Total	\$9,474,000

\* Household Hazardous Waste Revenue not included

# Rate Adjustment Implementation

- Methods of implementation of rate adjustments can vary from year to year based on needs and goals of the individual utilities
- Impact on individual customers can vary based on the method of implementation and the customer consumption of services





# Environmental Management & Sustainability Department

# Solid Waste Utility Rate Recommendations

- 3.5% increase on all residential rates
  - Residential 90 gallon barrel rate: \$0.97 per month, from \$27.79 to \$28.76
  - Residential 60 gallon barrel rate: \$0.87 per month, from \$24.81 to \$25.68
  - Additional black barrel rate: \$0.46 per month, from \$13.12 to \$13.58
  - Residential green barrel service: \$0.23 per month, from \$6.56 to \$6.79

# Solid Waste Utility Rate Recommendations

- Mesa Green and Clean Fee: no adjustment recommended
- Average residential customer increase: \$0.97 from \$28.63 to \$29.60
- 3.5% increase on bulk item and appliance collection for City of Mesa refuse customers
- Commercial Front Load rates: Overall 2.5% increase
- 4.9% increase on Commercial Roll Off Green Waste per ton fee



# Energy Resources Department

# Electric Utility Rate Recommendations

- Residential System Service Charge component: \$1.25 per month, from \$9.50 to \$10.75
- Consumption component of rate: No adjustment recommended
- Average residential customer: \$1.25 per month, from \$92.16 to \$93.41, 1.4% (Including commodity pass-through cost)
- Fourth proposed increase since FY 2003/04
- Non-residential rates: No adjustment recommended

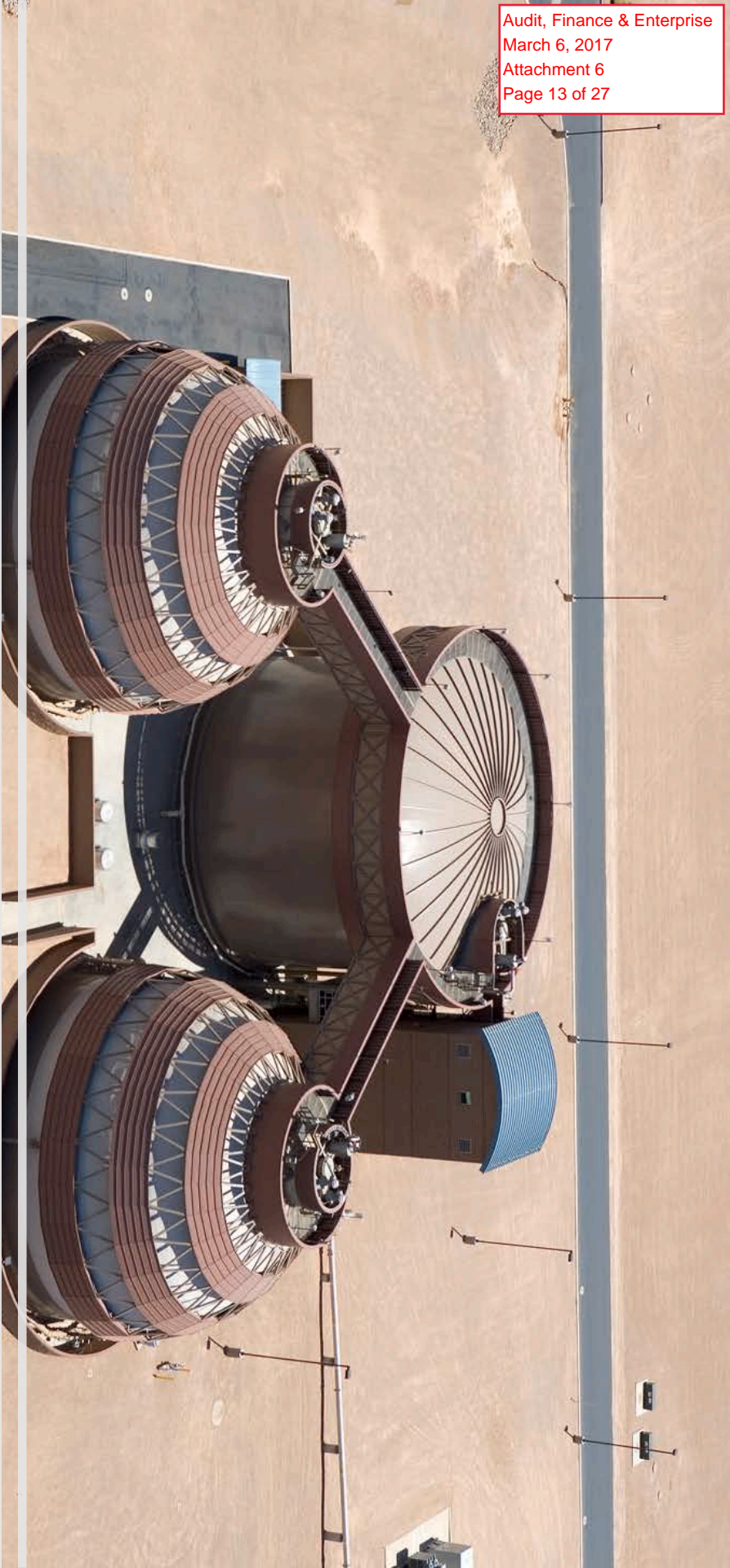
# Electric Utility Rate Recommendations

- Proposed System Service Charge of \$10.75 is:
  - \$9.25 per month less than SRP's monthly service charge of \$20.00
- Monthly bills during calendar year 2016 (at FY 2017/18 Mesa rates) would be approximately \$10.67 less per month than if served by SRP (\$128.04 less per year)
- Commodity costs for power are passed through to the customers and are not included in the annual rate review

# Natural Gas Utility Rate Recommendations

- All customers System Service Charge: increase \$0.75 per month
  - Residential customers summer: from \$13.11 to \$13.86 per month
  - Residential customers winter: from \$16.04 to \$16.79 per month
- Average residential customer monthly bill: from \$32.17 to \$32.92, 2.3% (Including commodity pass-through)
- Monthly bills during calendar year 2016 (at FY 2017/18 Mesa rates) would be approximately \$0.56 less per month than if served by SW Gas (\$6.72 less per year)
- Commodity costs for natural gas are passed through to the customers and are not included in the annual rate review





# Water Resources Department



# Water Utility Rate Structure

- Over the last few years the City has focused on better aligning fixed revenues with fixed costs. Target is fixed revenues at 35-40% of total costs. FY 2017/18 estimated at 36.62%
- Water consumption per account has declined in recent years: more widespread use of water saving appliances, smaller number of people per household, less landscaping and more water conservation awareness
- The City implemented a fourth residential water tier to align the tiers with usage patterns and associated costs
- This year will be the third year of the five year implementation
- Decreases annual impact to customers and allows time for customers to continue assessing their water usage and apply conservation techniques if possible

# Water Utility Rate Structure Recommendation

## Current Residential Tier Structure for FY 16/17

First 3,000 gallons included in service charge

Gallons

Cost per 1,000 gal

4,000-10,000

\$3.02

11,000-20,000

\$4.54

21,000-24,000

\$5.23

25,000 and greater

\$5.54

## Proposed Residential Tier Structure for FY 17/18

First 3,000 gallons included in service charge

Gallons

Cost per 1,000 gal

4,000-9,000

\$3.13

10,000-18,000

\$4.70

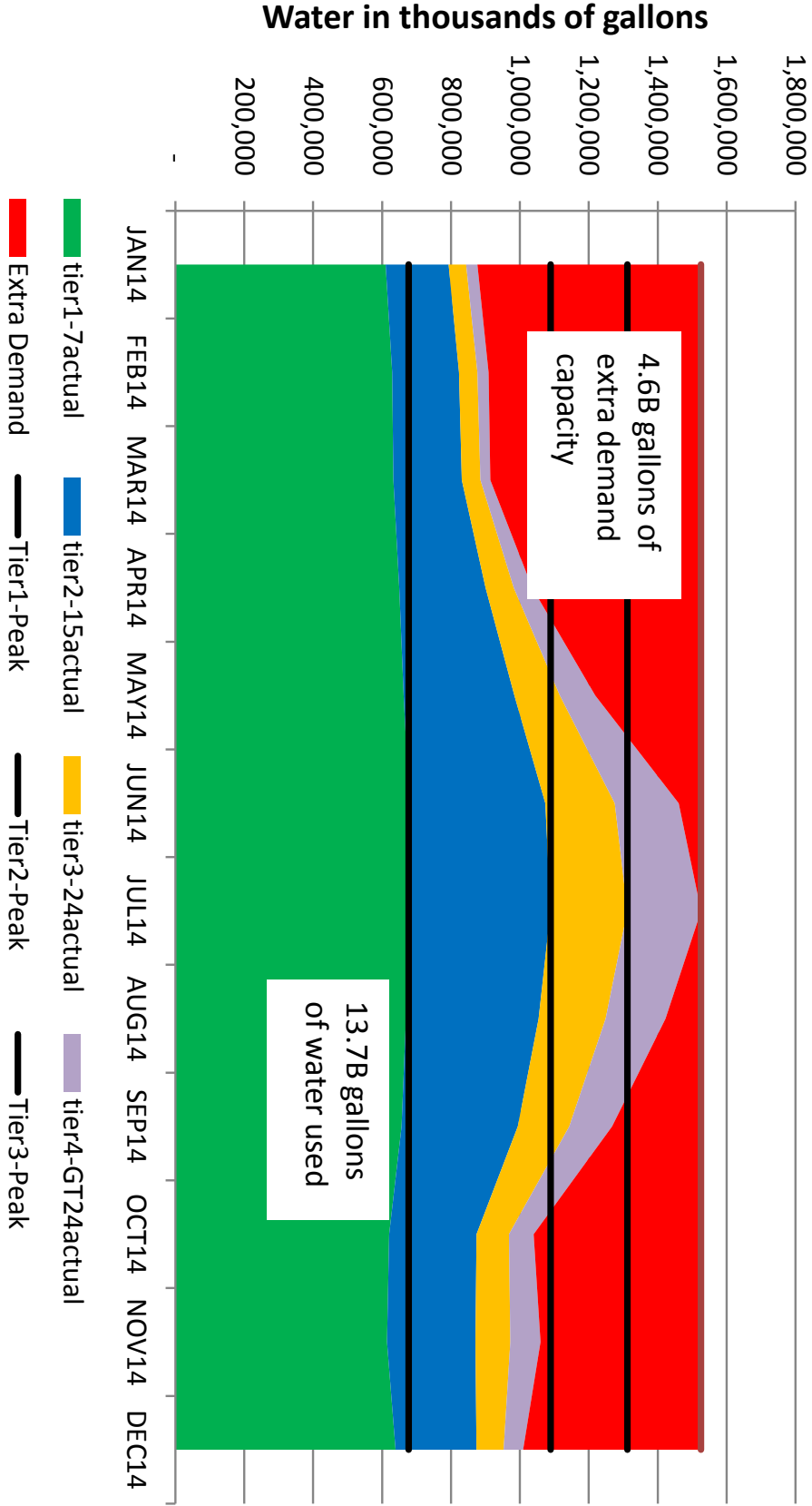
19,000-24,000

\$5.57

25,000 and greater

\$6.07

# City of Mesa CY2014 Residential Water Full Demand Capacity vs. Actual Usage



# Water Utility Rate Recommendations

- All customers: 3.5% increase on all rate components
- Residential Service Charge: \$0.93 per month, from \$26.62 to \$27.55
- Residential average monthly seasonal consumption total bill: \$1.57, from \$44.74 to \$46.31
- The City average monthly consumption is about 9,000 gallons however seasonality takes into account high demand summer months that experience some water consumption in tier 2. The resulting impact is greater than a straight 9,000 gallons per month.

# Wastewater Utility Rate Recommendations

- All customers: 4% increase on all rate components
- Residential Service Charge: \$0.72 per month, from \$18.08 to \$18.80
- Residential average monthly consumption total bill: \$1.12, from \$27.93 to \$29.05
- Wastewater rates are not subject to seasonality. The monthly rate is adjusted annually based on the winter water average usage of the individual customer

# Downtown Start-Up Utility Rates



# Downtown Start-Up Utility Rates

- Staff is in the process of designing a program to attract and stabilize small businesses
- Offers reduced electric and water rates (25% reduction)
- The incentive will last 3 years
- A business must meet certain requirements to qualify for the program





# Summary



# Proposed Changes to Reach Revenue Targets

	Prior Year	
	FY 2017/18	FY 2017/18
	Projection	Proposal
Electric	\$1.50	\$1.25
Gas	\$1.00	\$0.75
Water	4.5%	3.5%
Wastewater	5.0%	4.0%
Solid Waste	4.0%	3.5%

# Average Residential Customer Impact

Utility	Monthly	Annual
Solid Waste	\$0.97	\$11.64
Water	\$1.57	\$18.84
Wastewater	\$1.12	\$13.44
Total	\$3.66	\$43.92
Electric	\$1.25	\$15.00
Natural Gas	\$0.75	\$9.00

# Enterprise Fund Fiscal Impact

The FY 2017/18 recommended utility rate/structure adjustments are anticipated to meet the revenue increase target of \$9,474,000

Utility	Revenue
Electric	\$180,000
Natural Gas	\$467,000
Water	\$4,491,000
Wastewater	\$2,846,000
Solid Waste*	\$1,490,000
<b>Total</b>	<b>\$9,474,000</b>

\* Household Hazardous Waste Revenue not included

# Enterprise Fund Reserves

	Actuals FY 15/16	Estimate FY 16/17	Forecast FY 17/18	Forecast FY 18/19	Forecast FY 19/20
Beginning Reserve Balance	\$47.0	\$68.7	\$82.1	\$74.7	\$68.4
Total Sources	\$334.8	\$351.8	\$364.3	\$377.9	\$393.3
Total Uses	\$313.1	\$338.4	\$371.7	\$384.2	\$395.6
Ending Reserve Balance	\$68.7	\$82.1	\$74.7	\$68.4	\$66.1
Ending Reserve Balance Percent*	20.3%	22.1%	19.4%	17.3%	16.0%

\* As a % of all Next Year's uses of funding

in millions

# Schedule for FY 2017/18 Utility Rate Consideration

**March 20** – Notice of Intent

**April 13** – City Council  
Discussion of Utility Rates

**May 8** – Introduce Utility Rate  
Ordinances

**May 22** – City Council Action on  
Utility Rates

**July 1** – Effective date for Utility  
Rate changes

31

30

29

30





  
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# Tax Amnesty Program

Business Services Department  
Tax Audit & Collections



## Proposal

- ▶ Tax Amnesty program for a two-month period from June 1, 2017 through July 31, 2017.
- ▶ Generate revenue by collecting aging tax account receivable balances and encourage taxpayers to file and pay on unfiled/delinquent tax returns.

## Other Agencies

- ▶ Tucson - Two tax amnesty programs, waived 100% of the penalty and 50% of the interest. Revenue generated from 2009 Amnesty Program - \$928, 242 and 2015 Amnesty Program - \$2 million.
- ▶ State of Arizona - Amnesty program in 2015 generated \$55 million compared to \$15 million projected. Due to the success of the 2015 amnesty program, the State of Arizona conducted another amnesty program in 2016.

## Tax Amnesty Program

- ▶ With the Tax Simplification Initiative, collection of Transaction Privilege Tax, Use Tax & Transient Lodging Tax is now being administrated by the State as of January 1, 2017.
- ▶ A Tax Amnesty Program will assist the collections unit, clear pre-transition delinquent tax accounts receivable balances and delinquent/missing tax returns.

## Proposed Tax Amnesty Program

- ▶ Waiver of 100% penalty and 50% interest.
- ▶ Estimates:
  - ▶ 60% Collection - \$1.75M A/R debt cleared - \$581K net proceeds
  - ▶ 40% Collection - \$1.17M A/R debt cleared - \$387K net proceeds
- ▶ Plus: Unknown amount from unfiled returns and unlicensed businesses



# Proposed Tax Amnesty Program

## **Who can participate?**

- ▶ Licensed businesses with delinquent tax returns
- ▶ Taxpayers with outstanding tax account receivables
- ▶ Unlicensed businesses that are liable for Mesa Transaction Privilege, Use & Transient Lodging Tax through December

## **Who may not participate?**

- ▶ Receivables created as the result of an audit will not be eligible for the program due to State of Arizona audit administration.

# Questions?



# Liquor License Proration

Business Services Department  
Revenue Collections



## Proposal

- ▶ To prorate the first year Annual License Fee for Liquor Licenses
- ▶ Current Liquor License Fees
  - ▶ \$100 Application Fee
  - ▶ \$2,000 Issuance Fee
  - ▶ **\$500 or \$550 Annual License Fee**

## Proposal

Month	Prorated	Series 1-4, 8 & 11-13	Series 6, 6, 9, 10 & 14
January - March	100%	\$500.00	\$550.00
April - June	75%	\$375.00	\$412.50
July - September	50%	\$250.00	\$275.00
October - December	25%	\$125.00	\$137.50

Fiscal Impact: Reduction of revenue of about \$14,400 from a total of approx. \$32,600 to approx. \$18,200



## Next Steps

- ▶ Seek Council approval
  - ▶ Ordinance to update City Code
- ▶ Update Fees through annual fees and charges process
- ▶ July 1, 2017 implementation

# Questions?

