

# AUDIT, FINANCE & ENTERPRISE COMMITTEE MINUTES

March 23, 2023

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 23, 2023, at 8:57 a.m.

## COMMITTEE PRESENT

Jennifer Duff, Chairperson  
Francisco Heredia  
Mark Freeman

## COMMITTEE ABSENT

None

## STAFF PRESENT

Mike Kennington  
Holly Moseley  
Bill Taebel

Chairperson Duff conducted a roll call.

### 1. Items from citizens present.

There were no items from citizens present.

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

1. Street Maintenance (Transportation)
2. Property and Evidence (Police)
3. Annual Credit Card Security Review (Citywide)

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

Mr. Lisitano discussed the audit of the Transportation Department Street Maintenance program. He reported the worst pavement conditions index (PCI) is in the lowest income areas due to the older streets, which cost more to repair. He recommended the Transportation Department incorporate into its forecasting process a review of the road conditions to ensure that roads are distributed equitably across the city, as well as maintained. He suggested sacrificing the PCI score to ensure that all Mesa residents have good streets. He concluded that a follow-up review would take place in approximately one year. (See Pages 2 through 11 of Attachment 1)

In response to multiple questions from Committeemember Heredia related to third-party contractors, Transportation Department Director RJ Zeder commented there are approximately six third-party contractors performing different types of street maintenance. He said the City is committed to taking the necessary steps to improve the documentation process and enforce

contractors to comply with its obligations. He mentioned the City will implement an improved software program to manage pavement conditions throughout the city in the fall.

In response to a question from Chairperson Duff, Mr. Zeder identified oversights in the audit report that need to be corrected, leading the Transportation Department to reevaluate the terms and conditions.

Mr. Lisitano reviewed the audit results and recommendations for the Property and Evidence Division of the Police Department. He reported overall, the audit concluded that good controls were in place, with one recommendation to dispose of property and evidence in a timelier manner. He noted that a follow-up review would take place in approximately one year. (See Pages 12 through 15 of Attachment 1)

In response to multiple questions from Committeemember Heredia, staff explained the types of evidence tested and their policies and procedures for retention.

Mr. Lisitano discussed the audit and recommendations for the Annual Credit Card Security Review. He mentioned the Auditor Department is responsible for overseeing the operational requirements, while the Department of Innovation and Technology handles the more technological aspects of the Payment Card Industry Data Security Standard (PCI DSS) requirements. He stated that a follow-up review would take place in approximately one year. (See Pages 16 through 21 of Attachment 1)

In response to a question posed by Committeemember Heredia, Mr. Lisitano responded that every audit that is completed is followed by a one-year review to ensure corrections to the recommendations have been completed. He stated if recommendations are not corrected, a second follow-up review is required. He reported most departments complete all recommendations in the time allowed.

Chairperson Duff thanked staff for the presentation.

2-b. Hear a presentation, discuss, and provide a recommendation on the proposed fees and charges for the following City departments and other administrative changes: Arts and Culture, Development Services, Falcon Field, Mesa Fire and Medical, Municipal Court, and Transportation.

Office of Management and Budget (OMB) Deputy Director Samuel Schultz introduced Budget Coordinator Kristi Griffin and displayed a PowerPoint presentation. **(See Attachment 2)**

Mr. Schultz summarized the annual review of the City Departments' fees and charges schedule. He noted the proposed effective date for the fees and charges, and the fiscal impact of the recommendations is an estimated increase of \$607,409. He stated the City does not seek to generate revenue, but rather to recover costs associated with providing services. (See Pages 2 and 3 of Attachment 2)

Mr. Schultz referenced the full list of the applicable changes and adjustments in the fee packets.

Mr. Schultz reviewed the Arts & Culture Department's recommendation for a 5% increase, specifically for a security contract that was approved by the Council last June of 2022. He

mentioned the Arts & Culture Department is seeking to adjust their fees to appropriately account for their fund balance and cover ongoing costs. (See Page 4 of Attachment 2)

Mr. Schultz provided two recommendations for the Development Services Department. He commented that the second recommendation for an increase will be used to cover the vehicle cost inflation for a solid waste residential truck. He noted the last time the fee was updated was in 2015. (See Page 5 of Attachment 2)

Mr. Schultz summarized Falcon Field's recommendations for fee and charge increases. He mentioned Falcon Field operates in a self-sustaining fund and all of the revenues received cover costs. He explained that the Falcon Field airport is also the General Aviation Airport, which is a competitive market. He indicated the airport conducts an annual survey of cost comparisons among other general aviation airports across the Valley. He explained the 9.9% recommended increase will be applied towards tie-downs, rentals for the tie-downs, hangers, and storage rooms, as well as increasing the waitlist and security deposits for rentals. (See Page 6 of Attachment 2)

Mr. Schultz reviewed the two new fee recommendations for the Fire and Medical Department. He explained the fee structure, which was designed to mirror the police's panic false alarm fees. (See Page 7 of Attachment 2)

In response to questions from Committeemembers Freeman and Heredia, Battalion Chief-Deputy Chief Shawn Alexander provided an overview of the process for charging false alarm fees, which are currently for commercial or industrial properties only and do not affect residential homes.

Mr. Schultz reviewed the Municipal Court's recommendation, and stated once the court building is paid off in approximately 2028/2029, the fee will subset the current debt schedule. (See Page 8 of Attachment 2)

Mr. Schultz reviewed the Transportation Department's recommendation for the increase to maintain the integrity of Mesa's roadways. He provided an overview of the administrative updates for three departments. (See Pages 9 and 10 of Attachment 2)

In response to a question posed by Chairperson Duff related to the Police Department's alarm company fees, Mr. Schultz clarified those are preempted by state statute; therefore, the fee structure is no longer required to be included in the Citywide fee schedule.

Mr. Schultz discussed the next steps for the proposed fees and charges. (See Page 11 of Attachment 2)

In response to a question from Committeemember Heredia, Mr. Schultz advised of the City of Mesa notifications to residents on its fees and charges.

Committeemember Heredia suggested enhancing the Digital Innovation Mesa Electronic Services (DIMES) system for residents to pay fees in a more user-friendly manner.

Chairperson Duff thanked staff for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 10:09 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 23<sup>rd</sup> day of March 2023. I further certify that the meeting was duly called and held and that a quorum was present.

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HOLLY MOSELEY, CITY CLERK

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(Attachments – 2)



# City Auditor

Presentation to the Audit, Finance and Enterprise Committee

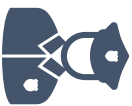
March 23, 2023

Joseph Lisitano, City Auditor

# Reports Issued March 2023



Transportation – Street Maintenance Program



Police – Property and Evidence



Citywide – Annual Credit Card Security Review

# Transportation – Street Maintenance Program

Report Date: 3/13/2023

An audit to determine whether effective controls are in place to ensure proper maintenance of City streets in accordance with applicable policies, statutes, and other requirements.

# Transportation – Street Maintenance Program

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## What did we audit and why?

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- Reviewed operating procedures and third-party contracts.
- Interviewed department personnel and observed procedures to gain an understanding of operations.
- Performed field observations of staff performing pavement treatments and condition surveys.
- Sampled treatments to determine if the projects selected were prioritized reasonably and appropriately.
- Analyzed data to determine if projects were selected equitably throughout the City.
- Why? To verify effective controls are in place to ensure proper street maintenance in accordance with applicable policies, statutes, and other requirements.



# Transportation – Street Maintenance Program

Transportation did not always follow the contract terms and conditions for its third-party contractors.

Recommendation:

- Develop and implement policies and procedures to address the following:
  - Monitor third-party contractors to ensure it collects required documentation (e.g., independent material test, temperature gauge calibration, and citizen notifications).
  - Retain documentation of inspections.
  - Periodically review contracts to ensure terms and conditions are still applicable.
- Enforce or modify the terms and conditions of its third-party contracts.

What did  
we find and  
recommend?

# Transportation – Street Maintenance Program

## What did we find and recommend?

Transportation does not have written policies and procedures for its forecasting process.

Recommendation:

- Develop and implement policies and procedures to address how City streets are prioritized for treatment, such as:
  - The forecasting process for identifying City streets that need treatment and documenting criteria used.
  - Retain documentation of the process and any adjustments.
  - Review and approval of the streets selected for treatment.
  - Periodic review of the process to ensure criteria is relevant and appropriate.

# Transportation – Street Maintenance Program

Transportation does not have adequate controls in place to ensure its pavement condition data is accurate and complete.

Recommendation:

- Develop and implement policies and procedures to address the following:
  - The process for performing pavement condition surveys, including frequency and criteria.
  - Retain documentation to support the pavement condition data on record.
  - Review the pavement condition data entered into the pavement management software to ensure it accurately reflects the pavement condition.

What did  
we find and  
recommend?

# Transportation – Street Maintenance Program

Transportation does not have adequate internal controls in place to ensure its third-party contractor is providing accurate and reliable pavement condition data.

Recommendation:

- The Department should perform monitoring procedures to ensure that the pavement condition data provided by its third-party contractor is accurate and reliable, including:
  - Retain documentation of procedures performed to demonstrate the pavement condition data was reviewed.
  - Verify the pavement condition data was properly uploaded into the pavement management system.
  - Request documentation of the quality control process and procedures performed.

What did  
we find and  
recommend?

# Transportation – Street Maintenance Program

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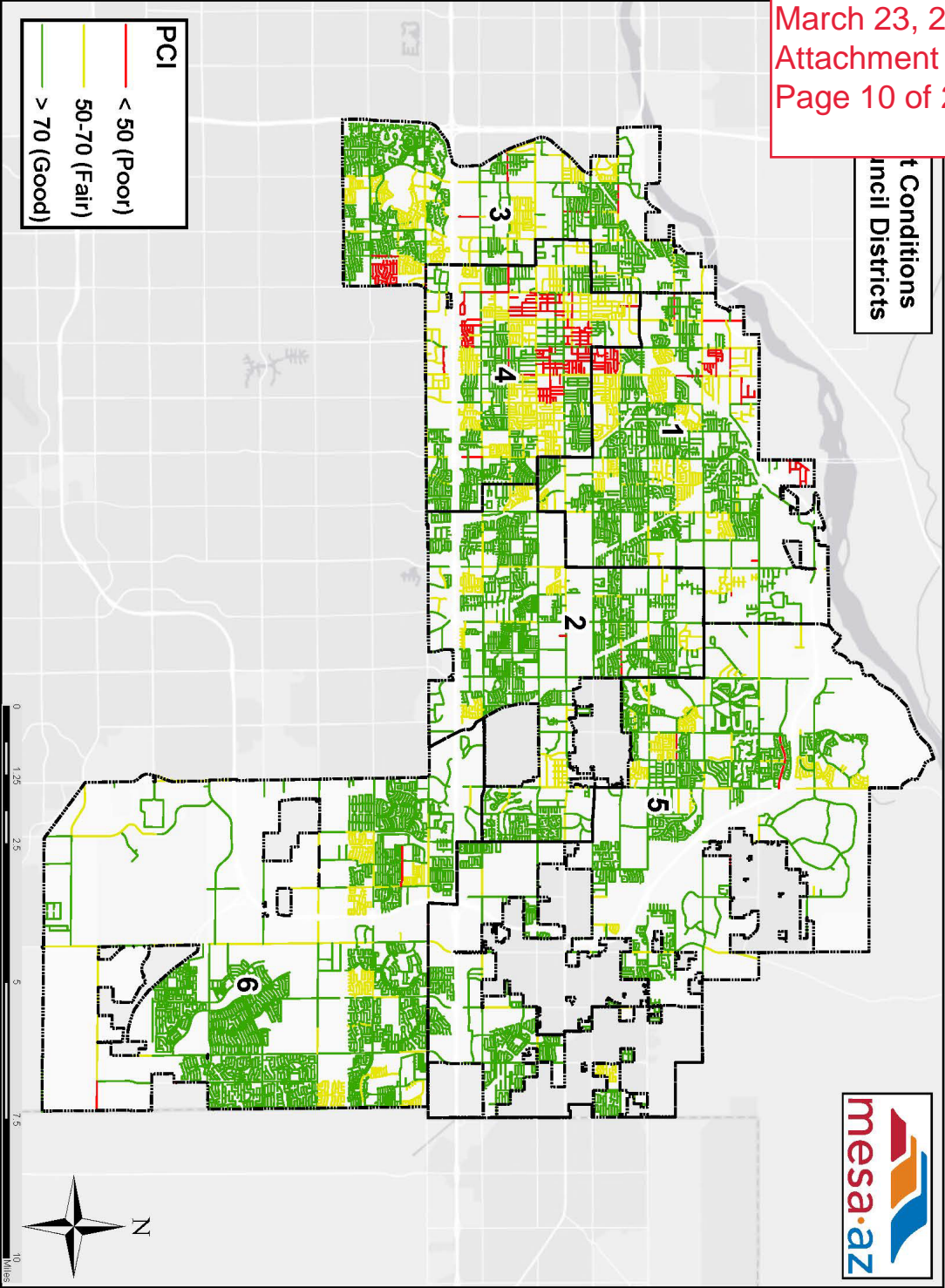
What did  
we find and  
recommend?

Department resources are not always distributed equitably throughout the City.

Recommendation:

- To ensure resources are distributed equitably throughout the City, the department should review its annual forecasting process, including the criteria used to prioritize which streets receive pavement treatment. In addition, review its budgeting process to ensure funding is allocated equitably for projects throughout the City.

# Transportation – Street Maintenance Program



Zip Code	Average of PCI	Median Household Income	PCI Rating Scale
85210	64.2	\$ 46,258	Fair
85201	77.8	\$ 46,348	Good
85206	78.9	\$ 51,572	Good
85202	71.2	\$ 54,047	Good
85208	88.3	\$ 54,982	Good
85204	74.8	\$ 55,906	Good
85205	81.7	\$ 57,850	Good
85203	66.9	\$ 60,412	Fair
85209	85.0	\$ 64,663	Good
85215	85.3	\$ 73,873	Good
85207	87.5	\$ 77,750	Good
85213	79.4	\$ 77,942	Good
85212	86.3	\$ 104,235	Good

Source: Analysis of pavement condition data from the City's Geographic Information System (GIS) inventory of streets and median household income by zip code from the U.S. Census Bureau website, as of August 2022.

# Transportation – Street Maintenance Program

## Response and Follow-up

- Management agrees with the recommendations and is implementing a corrective action plan.
- The changes should be completed by March 2024.
- 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.

# Police – Property & Evidence

Report Date: 3/13/2023

An audit to determine whether effective controls are in place to ensure that property and evidence are properly documented, secure, and available when needed; and ensure compliance with applicable policies, statutes, and other requirements.



## Property and Evidence

### What did we audit and why?

- Reviewed policies and procedures, interviewed staff, and observed processes to gain an understanding of department operations, including intake, storage, and disposal of property and evidence.
- Observed the department's records management system, including user access and changes to records are logged.
- Tested property and evidence to ensure proper intake, storage and disposal.
- Why? To verify effective controls are in place to ensure the program is administered in accordance with applicable policies, statutes, and other requirements.

# Section – Property and Evidence

The Evidence Section does not have adequate controls in place to ensure property and evidence items are disposed of in a timely manner.

Recommendation:

- Revise existing policies and procedures to address the timely disposal of property and evidence, such as:
  - Defining specific time periods and/or quantity thresholds to initiate the disposal process, including items authorized but not yet removed and those that have been removed but not yet verified.
  - Establish a transport/drug burn schedule that is conducive to the number of items authorized for destruction.

What did  
we find and  
recommend?

# ... – Property and Evidence

## Response and Follow-up

- Management agrees with the recommendation and is implementing a corrective action plan.
- The change should be completed by 8/31/2023.
- 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.

# Citywide – Annual Credit Card Security Review

Report Date: 3/14/2023

A citywide review of operational compliance with Payment Card Industry Data Security Standards (PCI DSS).

# Wide – Annual Credit Card Security Review

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## What is PCI DSS?

- Payment Card Industry Data Security Standard: A comprehensive system of operational and technological controls designed to protect cardholder data.
- Applies to any organization that accepts, transmits, or stores any cardholder data.
- Annual assessments are required.
- Compliance is a constant challenge due to staff turnover and evolving requirements.

Why do we  
review this  
every year?

# Wide – Annual Credit Card Security Review

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## What did we review?

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### Compliance with operational requirements:

- Screening and training all employees and volunteers who handle cardholder data.
- Maintaining and enforcing PCI DSS compliant policies and procedures at all acceptance sites.
- Mitigating risks related to contracted third-party payment processing service providers.
- Remediating non-compliance when found.

# Wide – Annual Credit Card Security Review

Follow-up:  
What did  
we find?

Last year’s recommendations were  
successfully implemented:

- ✓ Complete credit card handling training within required timeframes. (Development Services, Falcon Field)
- ✓ Ensure City’s service providers are monitored for PCI DSS compliance by an annual verification process. (Business Services)

✓ Implemented

# Wide – Annual Credit Card Security Review

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This year:  
What did  
we find and  
recommend?

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This year’s review found:

Credit card handling training not being completed within required timeframes. (PRCF)

- Recommended implementation of a control to ensure training is completed within required timeframes.



# Wide – Annual Credit Card Security Review

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## Response and Follow-up

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- PRCF Management agreed with the recommendation and will implement the corrective action plan.
- We will communicate with the department throughout the year to help ensure successful implementation and continued compliance.
- We will follow-up at the next annual review.

# Questions?

# Fees and Charges Recommendations

Audit, Finance, and Enterprise Committee

Presenters: Samuel Schultz – Office of Management & Budget Deputy Director  
Kristi Griffin – Operations Budget Coordinator

March 23, 2023



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## Fees and Charges Process and Recommendation

- Market comparisons conducted
- Cost of providing service and applicability of fee evaluated
- Full listing of recommended adjustments, additions, and deletions are included in the report
- Proposed effective date: July 1, 2023
- Estimated impact on revenue of all recommendations is an increase of \$607,409



# Departments Recommending Modifications



Arts & Culture



Development Services



Falcon Field



Fire & Medical



Municipal Court



Transportation

# Arts & Culture



## Recommendation:

- ***Increase*** Mesa Arts Center Facility Rental Fees by 5% to partially offset increasing costs of operations and building maintenance.
  - Industrial, Commercial, Non-Profit Rates
  - Daily and Weekly rates
  - Increase in revenue by facility:
    - Tom and Janet Ikeda Theater \$10,865
    - Virginia G. Piper Repertory Theater \$5,232
    - Nesbitt/Elliott Playhouse \$4,156
    - Anita Cox Farnsworth Studio \$838

**Total Estimated Revenue Increase: \$21,091**

# Development Services



## Recommendation:

- **Remove** the partial certificate of occupancy, as this service is no longer provided by the City
  - No Revenue Increase
- **Increase** the Solid Waste Residential Permit fee from \$227 to \$311 to recover increasing costs of providing services to new residential development. These fees cover the purchase of a new residential solid waste truck.
  - Revenue Increase: \$170,000

Total Estimated Revenue Increase: \$170,000

# Falcon Field



## Recommendation:

- **Overall Average Increase** in most fees and charges by 9.9% due to the following factors:
  - Inflationary cost increases of 7-10% in utilities, insurance, maintenance
  - Market fee increases across Arizona General Aviation Airports
  - Federal Aviation Administration (FAA) requires maximum self-sufficiency efforts to receive federal grants
  - Increased demand, low supply – hangar waitlist of several years
  - Revenue Increase: \$209,318
- **New Storage Container fee** of \$150/unit per month
  - Revenue Increase: \$54,000
- Effective August 1, 2023

Total Estimated Revenue Increase: \$263,318



# Fire and Medical



## Recommendation:

- ***New False Alarm Response fee***
  - First occurrence: \$0
  - Second occurrence: \$100 charge
  - Third occurrence and beyond \$200
  - Revenue Increase: \$6,000
- ***New additional charge*** for tents with firework sales, \$250 per tent inspected (plus the Special Event Permit fee)
  - Revenue Increase: \$10,000

Total Estimated Revenue Increase: \$16,000

# Municipal Court



## Recommendation:

- ***Increase*** the Court Construction Fee by \$3 per case (from \$31.50 to \$34.50) as outlined in the City Ordinance (4621) every third year to reduce the debt service obligation

Total Estimated Revenue Increase: \$75,000

# Transportation



## Recommendation:

- ***Increase*** the existing fee for payment in lieu of surface treatments from \$1.70/sq yd to \$2.75/sq yd due to market price increases and the cost of slurry seal

Total Estimated Revenue Increase: \$62,000

# Administrative Updates



## Recommendation:

- City Clerk: Replaced “CD” with “digital media”
- Business Services:
  - \*\* added to Mobile Food Vendor, indicating a required Investigation Fee of \$25.00 per license. The \*\* was omitted in error in the FY22/23 schedule publication.
  - Massage/Bodywork Establishments: removed late renewal fee, not applicable.
- Police:
  - Removal of alarm company fees due to preemption by State
  - Removal of printed photos, no longer offered

# t Steps:



City Council to consider proposed fees and charges amendments  
on **June 5, 2023**

If approved by City Council, fee & charges adjustments are  
effective **July 1, 2023**



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