

AUDIT, FINANCE & ENTERPRISE COMMITTEE MINUTES

June 30, 2022

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 June 30, 2022, at 8:46 a.m.

COMMITTEE PRESENT	COMMITTEE ABSENT	STAFF PRESENT
Mark Freeman, Chairperson Jennifer Duff David Luna	None	Mike Kennington Holly Moseley Bill Taebel

Chairperson Freeman 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. Falcon Field Leases
2. Annual Credit Card Security Review
3. Citywide Cash Handling
4. Transient Lodging Tax Follow-up Review
5. MFMD - Emergency Medical Transportation Services and Billing Follow-up Review
6. Police - Photo Safety Program Follow-up Review
7. Engineering - CMAR Projects Follow-up Review
8. PRCF - Convention Center Revenues Follow-up Review

City Auditor Joseph Lisitano displayed a PowerPoint Presentation on City of Mesa Audits. **(See Attachment 1)**

Mr. Lisitano reported since January of 2022, the City Auditor's office has conducted one audit, reviewed the citywide credit card security and cash handling process, and managed five follow-up reviews. He stated the Falcon Field lease audit determined whether adequate controls are in place to prevent or detect errors, fraud, waste, or abuse; and to ensure compliance. He noted the findings include inadequate document retention of cash reconciliations. He recommended steps to develop and implement policies and procedures for reconciling lease revenue and stated the department agreed with the findings and implemented an action plan. (See Pages 2 through 6 of Attachment 1)

In response to a question posed by Chairperson Freeman, Mr. Lisitano suggested documentation be kept for a minimum of three years or until financial statements are processed.

Mr. Lisitano explained the annual credit card security review analyzed operational compliance with Payment Card Industry Data Security Standards (PCI DSS). He defined PCI DSS as a comprehensive system of operational and technological controls designed to protect cardholder data. He noted the importance of the review due to staff turnover and evolving training requirements. He outlined the audit process, including screening and training employees and volunteers, maintaining and enforcing policies, and mitigating risks. He reported that Library Services and Parks Recreation Community Facilities (PRCF) successfully implemented last year's recommendations. He explained this year's review found issues with credit card handling training and service provider compliance. (See Pages 7 through 12 of Attachment 1)

Mr. Lisitano indicated during the citywide cash handling audit, various sites were audited to ensure staff is following policies and procedures for cash handling including change funds, and petty cash. He stated the audit goals are early detection, compliance enforcement, and to assist staff with questions. He reported City staff handles over \$1 million of cash annually, there were no discrepancies found in fund balances, and staff displayed effective processes to safeguard cash. (See Pages 13 through 15 of Attachment 1)

Mr. Lisitano stated the Transient Lodging Tax report issued included several recommendations. He remarked that the City Manager's office created a team of citywide staff to implement recommendations. He pointed out guidance includes monitoring the Visit Mesa Transient Lodging Tax (TLT) fund and analyzing contract deliverables and performance metrics to identify those that provide the most value. He emphasized the importance of establishing a formal communication process to meet goals. (See Pages 16 and 17 of Attachment 1)

Mr. Lisitano indicated the Mesa Fire and Medical Department Emergency Medical Transportation Services and billing review resulted from recommendations to ensure accurate billing and rate changes. He reported that the newly implemented recommendations include updating the write-off strategy and reconciliation system to ensure procedures are followed, and systems agree. (See Pages 18 and 19 of Attachment 1)

Mr. Lisitano outlined recommendations to the Police Photo Safety Program, including establishing goals and objectives; defining roles and responsibilities; and communicating photo safety projects, citation information, and financial results to all departments involved. He summarized the implemented changes for Municipal Court and Transportation. (See Pages 20 through 22 of Attachment 1)

Mr. Lisitano provided a review of the Engineering Construction Management At Risk (CMAR) projects that resulted in implementing processes to ensure contract-related documents are consistently retained in one place. (See Pages 23 through 24 of Attachment 1)

Mr. Lisitano recalled the review of the PRCF Mesa Convention Center was issued in November of 2019 but was delayed due to COVID. He summarized the newly implemented recommendations, including developing controls for concert settlements and vendor invoices and ensuring standard fees are authorized and fall within Council-approved ranges. He outlined additional guidance, including accessibility and security of cash, and developing improved internal controls over cash receipts. He discussed recommendations for contract terms to be in writing, signed by both parties, and amended when substantive changes are made. He noted

that refunds should be approved and ensure expenditures are accurate when calculating direct cost recovery. He pointed out that the recommended process to ensure revenue is recognized within one accounting period after it is earned has not yet been implemented; adding staff will follow up in six to nine months. (See Pages 25 through 28 of Attachment 1)

In response to a question from Committeemember Luna, Mr. Lisitano stated his department is fully staffed, and added City departments have been cooperative.

In response to a question from Chairperson Freeman, Mr. Lisitano estimated Business Services receives the most cash followed by PRCF.

Chairperson Freeman thanked staff for the presentation.

2-b. Hear a presentation, discuss, and provide a recommendation on the proposed Audit Plan for FY 2022/23.

City Auditor Joseph Lisitano displayed a PowerPoint Presentation on the Proposed FY 2023 Audit Plan. **(See Attachment 2)**

Mr. Lisitano detailed the audit plan for FY 2023. He outlined the audits in progress, including Mesa Tennis Center revenues, Police Department badging and security process, Community Services - Veterans Affairs Supportive Housing (VASH), Transportation street maintenance, and police property and evidence and criminal investigations case management. (See Pages 2 and 3 of Attachment 2)

Mr. Lisitano reported on new audits for FY 2023, including the Department of Innovation and Technology (DoIT) remote access audit, to reduce risks from telecommuting. He noted that the audit of take-home vehicles ensures compliance with policies and statutes, and the audit of intergovernmental agreements would ensure costs are recovered. He explained the cybersecurity audit ensures effective controls are in place to prevent, deter and respond to cyber-attacks. He noted the HR hiring and recruiting practices audit would compare the City's practices with industry standards, and the Special Pay Program audit ensures programs are administered per City policies. (See Page 4 of Attachment 2)

Mr. Lisitano summarized the planned follow-up reviews for FY 2023, including business procurement processes and HR/employee benefits, claims administrative contract, Falcon Field leases, Fleet parts management, DoIT software/application management, and the Convention Center follow-up. (See Page 5 of Attachment 2)

Mr. Lisitano indicated the department is working on other activities, including continuous cash handling audits, PCI DSS annual review, fraud & ethics hotline investigations, consulting, and unscheduled audits requested by the City Manager or Council. (See Page 6 of Attachment 2)

In response to a question from Committeemember Luna, Mr. Lisitano stated audit work will begin after Council acknowledgment and staff will continue to report regularly to the Audit, Finance & Enterprise Committee.

Chairperson Freeman thanked staff for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 9:10 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 30th day of June 2022. I further certify that the meeting was duly called and held and that a quorum was present.

HOLLY MOSELEY, CITY CLERK

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(Attachments – 2)

City Auditor

Presentation to the Audit, Finance, and Enterprise Committee

June 30, 2022

Joseph Lisitano, City Auditor

Reports Issued January – June 2022



Falcon Field – Leases



Annual Credit Card Security Review



Citywide Cash Handling

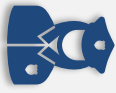


Follow-up Review – Transient Lodging Tax

Reports Issued January – June 2022



Follow-up Review – MFMD – Transport Services & Billing



Follow-up Review – Police – Photo Safety Program



Follow-up Review – Engineering – CMAR Projects



Follow-up Review – PRCF – Conv. Center & Amp. Revenues

Falcon Field Leases

Report Date: 2/22/2022

An audit to determine whether effective controls are in place to ensure revenues are accurately calculated, recorded, and collected; to prevent or detect errors, fraud, waste, or abuse; and to ensure compliance with policies, statutes, and other applicable requirements.

con Field – Leases

What did we audit and why?

- Reviewed policies and procedures to identify process controls.
- Interviewed Falcon Field personnel and observed procedures to assess effectiveness of controls.
- Sampled and tested monthly land lease and city-owned property revenues.
- Why? To verify effective controls are in place to ensure revenues are accurately calculated, recorded, and collected.

con Field – Leases

The department did not perform or retain documentation of its monthly cash activity reconciliations.

Recommendation:

- Develop and implement policies and procedures for reconciling lease revenue including:
 - Perform monthly cash activity reconciliations.
 - Review payment data reports for credit card transactions.
- Retain documentation of reconciliation activity.
- Review cash activity reconciliations for accuracy and completeness.

**What did
we find/
recommend?**

Annual Credit Card Security Review

Report Date: 6/30/2022

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

Annual Credit Card Security Review

What is PCI DSS?

Why do we review this every year?

- 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.

Annual Credit Card Security Review

What did we review?

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.

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. (Library Services)
- ✓ Assign unique login and password to employees accessing any system to process credit card transactions. (PRCF)

✓ Implemented

Annual Credit Card Security Review

**This year:
What did
we find/
recommend?**

This year's review found:

- 1. Credit card handling training not being completed within required timeframes. (Development Services, Falcon Field)**
 - Recommended implementation of a control to ensure training is completed within required timeframes.
- 2. Service providers' compliance status was not monitored. (Business Services)**
 - Recommended that the department enforce its policies and procedures and perform the verification process at least annually.

Annual Credit Card Security Review

Response & Planned Follow-up

- Management from all departments involved agreed with the recommendations and will implement the changes.
- We will communicate with the departments throughout the year to help ensure successful implementation and continued compliance.
- We will follow-up at the next annual review.

Citywide Cash Handling

Report Date: 6/30/2022

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

Citywide Cash Handling

What did we audit and why?

Throughout the year, we verify:

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

Goals:

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

Citywide Cash Handling

What did we find?

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

Transient Lodging Tax Follow-up Review

Report Date: 1/11/2022

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

Follow-up Review

Status of recommendations from June 2020 report:

- ✓ Monitor Visit Mesa's TLT funded expenses to verify compliance with state statutes and contract terms. This should be done in a timely manner so that any exceptions can be corrected.
- ✓ Monitor metrics to evaluate Visit Mesa's performance.
- ✓ When negotiating contract deliverables and performance metrics, identify those that provide the most value, as well as the frequency in which they are desired. Follow-up with monitoring for compliance.
- ✓ Establish a formal communication process, designate individual(s) who have authority to direct TLT spending, set clear expectations.

What did we find?

✓ Implemented

MFMD Emergency Medical Transportation Services and Billing Follow-up Review

Report Date: 11/20/2021

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

MD Transportation Services & Billing Follow-up Review

Status of recommendations from March 2021 report:

What did we find?

✓ Implemented

- ✓ Staff should review sampled claims for accuracy and completeness in compliance with departmental procedures. The results of the oversight should be communicated to management and to the vendor, as appropriate for correction.
- ✓ When rate changes are implemented, staff should ensure all rates in the billing system have been entered accurately.
- ✓ Management should assess the write-off strategy annually to ensure that it encompasses the common causes for and takes into consideration the current volume and dollar amount of transport claims written-off.
- ✓ Develop and communicate a comprehensive write-off guidance document that supports the write-off strategy
- ✓ Oversight should be conducted on a regular basis to verify compliance with the guidance.
- ✓ Ensure the reconciliation is designed to identify all MFMD transports; reporting data collection issues to the appropriate system administrator(s) as needed.
- ✓ Management should review the reconciliation results to be aware of any obstacles that are preventing desired objectives and to verify that the control is performed regularly, and as designed.

Police Photo Safety Program Follow-up Review

Report Date: 5/11/2022

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

Police Photo Safety Program Follow-up Review

Status of recommendations from December 2020 report:

Police Department

- ✓ Establish goals and objectives for the program, clearly define each department's role and responsibilities for the program and communicate them to the departments involved with the program.
- ✓ Report photo safety projects, citation information, and financial results to all departments involved in the program on at least a quarterly basis.
- ✓ Conduct the Traffic Safety Committee Meeting at least biannually.

What did we find?

✓ Implemented

Police Photo Safety Follow-up Review

What did we find?

Status of recommendations from December
2020 report:

Municipal Court

- ✓ Provide photo safety revenue data to the Police Department at least monthly.

Transportation Department

- ✓ Conduct follow-up speed reviews on a consistent schedule and/or conduct an independent photo enforcement study.
- ✓ Provide any traffic review data and analysis directly to the Police Department.

✓ Implemented

Engineering CMAR Projects Follow-up Review

Report Date: 6/14/2022

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

Engineering CMAR Projects Follow-up Review

What did we find?

Status of recommendation from March 2021 report:

- ✓ Engineering management should develop processes to ensure contract-related documents are consistently retained.

✓ Implemented

PRCF Mesa Convention Center Follow-up Review

Report Date: 6/1/2022

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

CF Mesa Convention Center Follow-up Review

Status of recommendations from November 2019 report:

- ✓ Develop controls to ensure concert settlement accuracy and completeness prior to payment issuance.
- ✓ Develop more effective internal controls to ensure the accuracy and completeness of fees charged to customers.
- ✓ Ensure that all standard fees and charges are authorized and fall within Council approved ranges; and obtain Council approval for all additions or changes to the approved Schedule of Fees and Charges.
- ✓ Develop a more effective internal control to ensure employees verify the accuracy of vendor invoices prior to payment.

What did we find?

✓ Implemented

CF Mesa Convention Center Follow-up Review

Status of recommendations from November 2019 report:

What did we find?

- ✓ All cash and cash equivalents should be kept in a secure location that is only accessible to Box Office staff who sell tickets. Also, the Box Office should obtain a safe that is more conducive to daily use.
- ✓ Develop improved internal controls over cash receipts. Examples of improved internal controls include: secondary counts, review of payments and deposits, utilizing a system that dispenses uniquely numbered receipts that are reconciled to deposits, updating procedures to direct staff how and where to secure funds and how to record overages and shortages, etc. The process related to parking revenues could also be improved to allow for more accurate reconciliation of this revenue.

✓ Implemented

PRCF Mesa Convention Center Follow-up Review

What did we find?

Status of recommendations from November 2019 report:

- ✓ Obtain all contract terms in writing, including ticket pricing and fee structures, and amend contracts whenever substantive changes are made to the terms. Also, all contracts and amendments should be signed by both parties.
- ✓ Develop a more effective internal control to ensure all refunds are approved in writing by the program supervisor.
- ✓ Ensure all direct revenue and expenditures from all applicable periods are included when calculating Direct Cost Recovery percentages; and carefully review calculations for accuracy and completeness prior to reporting results to management.
- ✗ PRCF Finance staff should implement a process which ensures that revenue is recognized within one accounting period after it is earned. This process should also ensure that accounting methods are applied consistently and accurately.

✓ Implemented
✗ Not Implemented

Questions?

City Auditor

Proposed FY 2023 Audit Plan

Presentation to the Audit, Finance, and Enterprise Committee

June 30, 2022

Joseph Lisitano, City Auditor

Audit Plan Overview:

- Current work in progress
- Audits planned for FY 2023
- Follow-up reviews due in FY 2023
- Other activities

Current work in progress:

- PRCF – Mesa Tennis Center
- Police Department – Badging/Security Access
- Community Services – VASH Program
- Transportation – Street Maintenance
- Police Department – Property and Evidence
- Police Department – Criminal Investigations Case Management

New audits:

- *DoIT – Remote Access
- Citywide – Take Home Vehicles
- Citywide – Intergovernmental Agreements Cost Recovery
- DoIT – Cybersecurity
- Human Resources – Hiring & Recruitment Practices
- Citywide – Special Pay Programs

*Carried over from FY22 Audit Plan

Follow-up reviews:

- Business Services – Procurement Processes
- HR/Employee Benefits – Claims Admin. Contract
- Falcon Field – Leases
- Fleet – Parts Management
- DoIT – Software/Application Management
- PRCF – Convention Center 2nd Follow-up

Other activities:

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

Questions or changes?