



AUDIT, FINANCE & ENTERPRISE COMMITTEE

June 25, 2020

The Audit, Finance & Enterprise Committee of the City of Mesa met via a virtual format streamed into the lower level meeting room of the Council Chambers, 57 East 1st Street, on June 25, 2020, at 9:23 a.m.

COMMITTEE PRESENT	COMMITTEE ABSENT	STAFF PRESENT
Jennifer Duff, Chairperson* Mark Freeman* David Luna*	None	Michael Kennington Dee Ann Mickelsen Jim Smith

(*Committeemembers participated in the meeting through the use of video conference equipment.)

Chairperson Duff conducted a roll call.

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

1. Transient Lodging Tax

Interim City Auditor Joseph Lisitano displayed a Power Point presentation and reviewed the audit reports issued April to June 2020. **(See Attachment 1)**

Mr. Lisitano explained the Transient Lodging Tax (TLT) audit was done to determine that revenue use was in accordance with the statutes, laws, and contractual agreements and that Visit Mesa was using reliable metrics to evaluate the program. He reported the City of Mesa has a 5% lodging tax on hotels, motels, recreational vehicle (RV) parks, and short-term vacation rentals. He advised the City uses the funding for maintenance of capital improvements and the remainder is distributed to Visit Mesa to promote tourism. (See Pages 3 and 4 of Attachment 1)

Mr. Lisitano said the audit consisted of interviewing City of Mesa and Visit Mesa personnel to review the contracts and statutes to identify the requirements and performance expectations, review the revenue distribution to confirm compliance, perform tests of TLT expenditures and analyzed the performance measures used for reliability and effectiveness. (See Page 5 of Attachment 1)

Mr. Lisitano advised overall both the City of Mesa and Visit Mesa are complying with the statutes and contracts; however, the recommendations focused on the monitoring process to

evaluate Visit Mesa's compliance and performance. He reviewed the recommendations and mentioned a few expenditures were found not in compliance with State statute, but emphasized the dollar amounts of those expenditures were small. He pointed out with the monitoring in place, issues of compliance will be corrected. (See Page 6 of Attachment 1)

Mr. Lisitano indicated management agreed with the recommendations and are implementing a corrective action plan that will be completed by the end of the calendar year. He added staff will perform a follow-up review in one year. (See Page 7 of Attachment 1)

Committeemember Luna expressed his support for the recommendations.

2. Citywide Cash Funds (Continuous)

Mr. Lisitano explained during the year City policies and procedures are verified for cash handling, change funds, and petty cash to ensure the correct counts. He discussed the different procedures that have been done due to COVID-19. He remarked the goals are to establish relationships with the departments, detect issues to avoid significant problems, and ensure consistent enforcement of compliance. (See Page 9 of Attachment 1)

Mr. Lisitano advised approximately \$1 million in cash is processed by the City annually. He expanded by saying there were no discrepancies in fund balances and, overall, effective processes are in place. He confirmed the prior year recommendations to the Mesa Arts Center (MAC) to ensure daily reconciliation, and that Parks, Recreation and Community Facility (PRCF) employees timely complete training. He pointed out staff recommended the Library update internal controls to ensure all employees receive training on handling money within 90 days. (See Pages 10 through 12 of Attachment 1)

3. Annual Credit Card Security Review

Mr. Lisitano described the operational compliance with Payment Card Industry Data Security Standards (PCI DSS), which is a required audit that is done to authorize the City to process credit card transactions. He reported the operational side is handled by the City Auditor and the technical side is handled by the Department of Innovation and Technology (DoIT). He reviewed the items investigated for operational compliance. He pointed out last year's recommendations, adding each was successfully implemented. He indicated the current recommendations are to ensure staff maintain an up-to-date list of Point of Sale (POS) devices and improve departmental procedures to ensure training occurs in a timely manner. (See Pages 14 through 17 of Attachment 1)

Mr. Lisitano advised management from each department agreed with the recommendations and will implement the changes. He mentioned staff will continue to communicate with the departments to ensure successful implementation and continued compliance and will follow up at the next annual review.

4. Procurement Card Program (Follow-Up Review)

Mr. Lisitano highlighted the recommendations made in the February 2019 report and emphasized all recommendations have been implemented. He continued by saying staff

encouraged following established rules that require a receipt for every transaction and that credits are being tracked. (See Page 21 of Attachment 1)

In response to a question from Committeemember Freeman regarding how often there is a credit card discrepancy where an employee must reimburse the City, Mr. Lisitano stated there were a few incidents where that came up in the audit, but it was not common. He expressed the importance of staying on top of reimbursements because that is how fraud occurs.

Chairperson Duff commented on an instance when she has accidentally charged a service using the wrong card.

Mr. Lisitano confirmed that similar situations came up in the audit where an employee forgot to ensure the correct card was being charged and reiterated the need for approvers and reviewers to carefully reconcile those items.

5. Development Services Fees and Charges (Follow-Up Review)

Mr. Lisitano explained the follow-up review was to confirm the recommendations from the May 2019 report were implemented. He stated the recommendations included making sure the cash receipts were reconciled daily, updating current policies and processes, that training occurred within the required timeframe, and ensuring fees and charges are being reviewed annually. He discussed an example that was discovered during the audit of a fee being updated in the system and not updated on the schedule of fees and charges. (See Page 23 of Attachment 1)

In response to a question posed by Committeemember Freeman regarding whether the City lost money from the fee discrepancy, Mr. Lisitano stated the item pertained to sewer or water; and if he is recalling correctly, the difference was under \$3,000.

Mr. Lisitano continued by giving an overview of the recommendations for Development Services fees and charges relating to system access, adding each has been implemented. He advised Development Services requested staff to look at the department's internal auditing process to ensure effectiveness, stating the recommendation was to provide additional training on the process, make standard forms, and increase the number of audits. (See Page 24 of Attachment 1)

1-b. Hear a presentation, discuss, and provide a recommendation on the proposed Audit Plan for FY 2020/21.

Mr. Lisitano displayed a PowerPoint presentation and gave an overview of the proposed Fiscal Year (FY) 2021 Audit Plan. **(See Attachment 2)**

Mr. Lisitano stated currently the four audits in process are Fire and Medical for transport services and billing, Engineering for Construction Manager at Risk (CMAR) projects, Engineering for Capital Improvement Projects (CIP), and Police for the Photo Safety Program. He added the audits are expected to be finished shortly and will be presented at the next Council meeting. (See Page 3 of Attachment 2)

Mr. Lisitano explained the new audits for the upcoming year will be looking at the procurement process for Business Services/Purchasing to make sure there are controls in place to protect

against fraud, waste or abuse and ensure compliance with policies, statutes and other applicable requirements; DoIT to determine that effective controls are in place to ensure all applications used to conduct City business are licensed, inventoried and meets the City's security standards; and Engineering to ensure the projects are administered in accordance with established criteria and internal controls to prevent errors, fraud, waste or abuse. He advised these audits were carried over from the FY 20 Audit Plan and will be given priority for this year. (See Page 4 of Attachment 2)

Mr. Lisitano highlighted the audit for the Police Department to ensure effective controls are in place to manage City building suite access to prevent unauthorized access to City facilities. He explained the audit pertaining to Falcon Field leases will be 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. He pointed out the largest revenue sources for Falcon Field are the hangar rentals and land leases. He reported the Fleet audit is to make sure effective controls are in place over parts management, ensuring compliance with policies and other applicable requirements. (See Page 5 of Attachment 2)

Mr. Lisitano stated follow-up reviews will be conducted for the jail services contract for the Police Department, the Convention Center revenues for PRCF, the claims administration contract for Human Resources/Employee Benefits, and the Transient Lodging Tax. (See Page 6 of Attachment 2)

Mr. Lisitano indicated other Audit activities include the Citywide cash handling audits and PCI DSS review that occur every year, although some things will change due to the fact that many collection sites are closed; fraud and ethics hotline investigations; consulting; and unscheduled audits requested by the City Manager or City Council. (See Page 7 of Attachment 2)

In response to a question from Committeemember Luna regarding whether there are enough staff to handle the workload, Mr. Lisitano indicated he is always willing to accept more staff. He mentioned there have been no layoffs in the Audit Department; however, there is one open position that has not been filled. He commented that he scaled back on the number of audits in the proposed audit plan to ensure staff will be able to catch up.

Committeemember Freeman requested a presentation on future bond payments that the City could possibly pay off early.

Deputy City Manager and Chief Financial Officer Michael Kennington agreed to present a future agenda item that targets the possibility of refunding outstanding bonds.

In response to a question posed by Chairperson Duff, Mr. Kennington clarified refunding would include bonds that have a higher rate than what is available in the market today. He mentioned currently there are several 2010 issuances that are callable. He verified a future presentation can be presented to the committee.

Chairperson Duff thanked staff for the presentation.

It was moved by Committeemember Luna, seconded by Committeemember Freeman that the proposed Audit Plan for 2020/2021 be forwarded to the full Council for discussion and consideration.

Upon tabulation of votes, it showed:

AYES – Duff-Freeman-Luna

NAYS – None

Carried unanimously.

Committee Freeman asked for an update on how the decrease in sales tax revenue has impacted the City over the last year.

Mr. Kennington stated he would supply an update.

2. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 10:01 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 25th day of June 2020. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

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(Attachments – 2)

City Auditor


Presentation to the Audit, Finance, and Enterprise Committee
June 25, 2020

Joseph Lisitano, Interim City Auditor

Reports Issued Apr-Jun 2020

 Transient Lodging Tax

 Continuous Auditing of Cash Funds

 Annual Credit Card Review

 Follow-up Review – Procurement Card Program

 Follow-up Review – Development Services Fees & Charges

Transient Lodging Tax

Report Date: 6/16/2020

An audit to determine revenue use is in accordancy with laws and contractual agreements; and reliable metrics are in place to evaluate the program.

Transient Lodging Tax

Background

- Bed Tax
- Used for the promotion of tourism.
- Cannot be used to influence the outcome of elections.
- City use: Hohokam Stadium, Sloan Park, Mesa Convention Center
- Remainder distributed to Visit Mesa to promote tourism.

Transient Lodging Tax

What did we audit?

- Reviewed the contract and statutes to identify requirements and performance expectations.
- Interviewed City and Visit Mesa personnel.
- Reviewed revenue distribution and other deliverables to confirm contract compliance.
- Performed tests of TLT expenditures to ensure compliance with applicable laws.
- Analyzed performance metrics for reliability and effectiveness.

Transient Lodging Tax

What did we find/ recommend?

Monitoring process not in place to evaluate Visit Mesa's compliance or performance.

Recommendations:

- Monitor expenses to verify compliance with statutes and contract terms.
- Monitor metrics to evaluate Visit Mesa's performance.
- Identify contract deliverables that deliver the most value and monitor for compliance.
- Establish a formal communication process to authorize spending and identify key activities to be performed.

Transient Lodging Tax

Response & Follow-up

- Management agrees with the recommendations and is implementing corrective action plans.
- All changes should be completed by 12/31/2020.
- We will remain engaged with the department throughout the process to help ensure successful implementation.
- We will perform a follow-up review in approximately 1 year.

Citywide Cash Handling

Report Date: 6/25/2020

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

Citywide Cash Handling

What did we audit and why?

Throughout the year, citywide, we verify:

- Compliance with City policies and procedures.
- Cash fund balances.
- Different procedures performed due to Covid-19.

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.
- Prior year recommendations were implemented:
 - ✓ MAC box office change fund reconciled daily.
 - ✓ PRCF employees complete required training timely.

Citywide Cash Handling

What did

We

recommend?

Library

- Implement improved internal controls to ensure all employees receive required training within 90 days of handling money.

Citywide Cash Handling

Response & Follow-up

- Management agrees with the recommendation and will implement changes by 9/30/2020.
- We will perform follow-up work as part of the FY2021 Citywide cash handling audit.

Annual Credit Card Security Review

Report Date: 6/10/2020

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

Annual Credit Card Security Review

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 audit this every year?

Annual Credit Card Security Review

What did we audit?

Compliance with operational requirements:

- Screening and training all employees and volunteers who handle credit cards.
- 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

Last year's recommendations were successfully implemented:

- ✓ Ensure new card handlers complete training timely. (Financial Services, Library Services)
- ✓ Destroy cardholder data per required retention schedules. (Municipal Court)
- ✓ Implement a secure process for receiving credit card numbers. (PRCF)
- ✓ Use City contracted vendors or establish contracts where the vendor accepts responsibility for cardholder data.

Follow-up:

What did we find?

✓ Implemented

Annual Credit Card Security Review

This year:
What did
we find/
recommend?

This year's review found:

1. Point of sale devices not consistently inspected and accurately recorded. (PRCF)
 - Recommended staff maintain an up-to-date list of POS devices.
 - Recommended staff should conduct and document inspections of all POS devices.
2. Training was not always timely. (PRCF, A&C)
 - Recommended improved departmental procedures to ensure training happens in a timely manner.

Annual Credit Card Security Review

Response & Planned Follow-up

- Management from each of the 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.

Procurement Card Program

Report Date: 5/26/2020

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

Procurement Card Program Follow-up Review

What did we find?

Status of recommendations from February 2019 report:

- ✓ Clarify approval roles and responsibilities for approving transactions to ensure all transactions adequately reviewed prior to approval.
- ✓ Purchasing should develop and deliver mandatory training for reviewers/approvers to ensure they understand how to properly review a transaction and supporting documentation prior to approval.
- ✓ Purchasing should update MP 211 and the Procurement Card Program Guidelines and Procedures to include approver eligibility criteria, clarified roles, and training requirements.

✓ Implemented

Procurement Card Program Follow-up Review

What did we find?

Status of recommendations from February 2019 report:

- ✓ Purchasing and AP should enforce established Procurement Card Program rules requiring a receipt for every purchase.
- ✓ Purchasing should revise MP 211 and the Procurement Card Program rules to require approvers to track credits to ensure they are received.
- ✓ Purchasing should implement specific requirements to ensure the City is properly credited/reimbursed when an employee accidentally uses a City p-card for personal purchase.

✓ Implemented

Development Services Fees & Charges

Report Date: 5/19/2020

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

Development Services Fees & Charges Follow-up Review

What did we find?

Status of recommendations from May 2019 report:

- ✓ Cash receipts should be reconciled daily to the City's cashiering system.
- ✓ Update the department's cashiering policy to reflect current processes and outdated content.
- ✓ Develop a process to ensure employees complete cash handling within required time periods.
- ✓ All cash equivalents should be stored in a secure location until they are deposited.
- ✓ Implement a regularly scheduled annual review of all fees and charges in the system to coincide with City Council's annual approval of the revised Schedule of Fees and Charges.

✓ Implemented

Development Services Fees & Charges Follow-up Review

What did we find?

Status of recommendations from May 2019 report:

- ✓ Implement system controls and/or process controls to mitigate the risks associated with manual changes to permit fees.
- ✓ Implement a process to ensure that system access is immediately revoked when an employee is transferred or terminated.
- ✓ All cash equivalents should be stored in a secure location until they are deposited.
- ✓ Develop a more effective internal auditing process; including staff training, standard forms, written procedures, and a more thorough follow-up process.

✓ Implemented

Questions?

City Auditor

Proposed FY 2021 Audit Plan

Audit, Finance, and Enterprise Committee

June 25, 2020

Joseph Lisitano, Interim City Auditor

Audit Plan Overview:

- Current work in progress
- Audits planned for FY 2021
- Follow-up reviews due in FY 2021
- Other activities

Current work in progress:

- MFMD – Transport Services & Billing
- Engineering – CMAR Projects
- Engineering – CIP Mesa
- Police – Photo Safety Program

New audits:

- *Business Services/Purchasing – Procurement Processes
- *DoIT – Software/Application Management
- *Engineering – Job Order Contracting (JOC)

*Carried over from FY20 Audit Plan

New audits:

- Police Department – Badging/Security Access
- Falcon Field – Leases
- Fleet – Parts Management

Follow-up reviews:

- Police – Jail Services Contract
- PRCF – Convention Center Revenues
- HR/Employee Benefits – Claims Admin Contract
- Transient Lodging Tax

Other Activities:

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

Questions or changes?

Forward to City Council for Approval?