



AUDIT, FINANCE & ENTERPRISE COMMITTEE

June 4, 2018

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 4, 2018, at 4:15 p.m.

COMMITTEE PRESENT

Mark Freeman, Chairman
Christopher Glover
David Luna

COMMITTEE ABSENT

None

STAFF PRESENT

Michael Kennington
DeeAnn Mickelsen
Jim Smith

1. Items from citizens present.

There were no items from citizens present.

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

1. i.d.e.a Museum Earned Revenues

City Auditor Jennifer Ruttman displayed a PowerPoint presentation. **(See Attachment 1)**

Ms. Ruttman reviewed the earned revenue sources for the i.d.e.a. Museum and advised 10% of the gift shop sales are funds allocated to the museum and the remaining 90% is retained by the board. She noted a small percentage of funding for the museum is through earned revenue and emphasized the importance of protecting and retaining the revenue that is received through this source. She reviewed the general observations that were found through the audit. (See Pages 3 through 5 of Attachment 1)

Ms. Ruttman detailed the three audit findings for the i.d.e.a. Museum and provided staff's recommendations. (See Pages 6 through 8 of Attachment 1)

2. Police Supplies and Equipment

Ms. Ruttman explained the audit of the Mesa Police Department (MPD) is the largest for staff due to the department size, number of facilities, and amount of inventory. She added there were some areas that did not need to be audited, such as the crime lab, and this was because of the sophisticated process of tracking items already in place at that location.

Ms. Ruttman reviewed the three observations that were noted during the audit of the MPD and provided staff's recommendations to correct the issues presented. (See Pages 11 through 13 of Attachment 1)

In response to a question posed by Chairman Freeman, Ms. Ruttman advised the MPD does have a process in place to track inventory that is acquired through grant funds.

3. Annual Credit Card Security Review

Ms. Ruttman detailed the Audit Department's role in ensuring the City is protecting customers' credit card information and adhering to the requirements set by the Payment Card Industry's Data Security Standard. (See Page 16 of Attachment 2)

She provided an update on a previous credit card security audit completed at the Municipal Court and addressed the observations and recommendations found during the current credit card security audit. (See Pages 18 through 21 of Attachment 2)

4. Red Mountain Multigenerational Center (Follow-up Review)

Ms. Ruttman reported staff at the Red Mountain Multigenerational Center have implemented all recommendations.

5. Housing Rehab Program (Follow-up Review)

Ms. Ruttman explained the recommendations to staff within the Housing & Community Development Department were implemented, however, exceptions were still noted during the follow-up review. She added audit staff will complete a second follow-up in approximately nine months.

In response to a question posed by Committeemember Glover, Senior Internal Auditor Karen Newman advised the new estimated completion date for this audit is December 2018. She added staff is currently revising the Housing Rehabilitation Program Checklist and Administrative Plan.

In response to a question posed by Committeemember Luna, Ms. Ruttman stated each staff member within the Audit Department is required to consistently reach out to the departments in order to maintain a relationship with City staff. She noted City staff is very cooperative and willing to provide the Audit Department with the information needed to perform the audit.

2-b. Hear a presentation, discuss, and provide a recommendation on the proposed Audit Plan for FY 2018/19:

City Auditor Jennifer Ruttman displayed a PowerPoint presentation (**See Attachment 2**) and stated the Audit Department establishes an Audit Plan every year that includes new audits, follow-up reviews, and other activities.

Ms. Ruttman detailed the current audits in progress. She noted staff is reviewing the operations contract at Dobson Ranch Golf Course and analyzing the financial aspects, along with the revenue sharing and the performance of the contractor. (See Page 3 of Attachment 2)

Ms. Ruttman presented the proposed new audits for FY 2018/19. She explained the Mesa Police Department has kept the Council up-to-date on the Jail Services Contract, however, several sources have expressed interest in having an independent review completed by City staff on this contract. (See Page 4 of Attachment 2)

Ms. Ruttman advised the Convention Center has not been audited in several years and staff will evaluate how the facility is performing.

Ms. Ruttman detailed the proposed follow-up audits to review in FY 2018/19. She stated the review of Payroll and Timekeeping has been delayed due to a shortage in staff but will be made a priority this year. (See Page 5 of Attachment 2)

Ms. Ruttman commented that Police Chief Batista is committed to successfully completing the audit of the Police Off Duty Program.

Chairman Freeman expressed his appreciation to staff on the hard work put forth to ensure all audits are completed in a timely manner and establishing proper action plans to fix any findings during an audit.

It was moved by Committeemember Glover, seconded by Committeemember Luna, to recommend that the proposed Audit Plan for FY 2018/19 be forwarded on to the full Council for approval.

Chairman Freeman declared that the motion carried unanimously.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 4:58 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 4th day of June, 2018. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

mh
(Attachments – 2)

City Auditor

Audit, Finance, and Enterprise Committee June 4, 2018





Audit Reports

1. i.d.e.a. Museum – Earned Revenues
2. Police Dept – Supplies and Equipment
3. Annual Credit Card Security Review
4. Follow-up Review – PRCF–RMMC
5. Follow-up Review – Housing Rehab Program



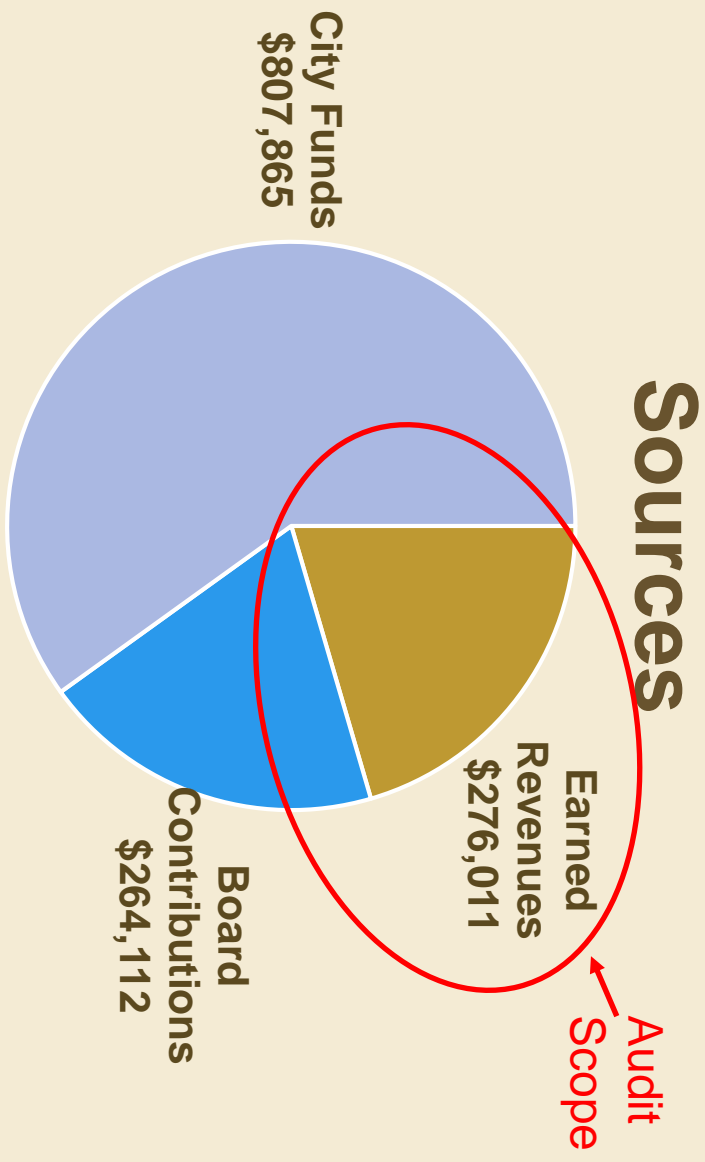
Audit Objective

Are effective controls in place to ensure earned revenues are received, accurately recorded, and safeguarded from loss?

- Admissions
- Special Events
- Rentals
- 10% of Gift Shop Sales



FY 2017 Funding Sources





General Observations

- Controls are in place to ensure *most* earned revenues are received, accurately recorded, and safeguarded from loss.
- Improved controls are needed in a few areas.
- 1987 Agreement between Museum and AMYF needs to be updated. This was not included in the Issues & Action Plans (IAPs), because it is the subject of another audit.



IAP #1

Observation: Fee structure for parties was difficult to administer and not consistently applied.

Recommendations:

1. Implement a more effective way to record attendance and event duration; or change the fee structure for parties.
2. Variance from established pricing should be documented and approved.



IAP #2

Observation:

Employees had not completed credit card handling and/or cash handling training as required by City Policy.

Recommendations:

1. Implement an effective process to ensure training is completed within required time frames.
2. Revise Management Policies 210 and 212 to require training prior to (or shortly after) handling cash/credit cards.



IAP #3

Observation:

The Museum did not have an adequate cash handling procedures manual as required by MP 210.

Recommendation:

1. Implement and maintain a detailed cash handling procedures manual, and ensure the staff has access to it.



Police Department Supplies and Equipment



Audit Scope and Background:

- Audit scope included existing data, processes, policies, and physical inventory (both in stock and issued/deployed).
- Fiscal Unit has taken on overall responsibility – but primary management of most items is decentralized.
- Effort to improve has been ongoing since 2014.



IAP #1

Observation:

Inventory records maintained by Fiscal/Supply, SWAT, PDIT, and Training are not complete and accurate.

Recommendations:

1. Periodically conduct a full inventory; and have a process to document and correct discrepancies.
2. Effectively track issued and expiring ballistic helmets.



IAP #2

Observation:

Inaccurate and/or incomplete records of keys to secure areas. (*Note: This is known to be a problem citywide – it is not unique to PD.*)

Recommendation:

Implement a more effective process to manage and track keys to secure areas. Determine who has access to what.



IAP #3

Observation:

MPD has not disposed of obsolete and expired items stored at PDIT, Training, and the MFMD warehouse.

Recommendation:

1. Ensure that expired and obsolete inventory is disposed of properly and timely.



Annual Credit Card Security Review





Audit Scope and Background:

- PCI DSS = Payment Card Industry Data Security Standards
 - 12 General requirements, 279 specific requirements and 464 associated compliance tests.
 - ~90% are technical – monitored by ITD
 - ~10% are operational – monitored by City Auditor
- Our scope:
- 31 of 279 requirements and 44 of 464 testing procedures



Audit Objectives:

- Have previous audit findings been remedied?
- Do we protect our customers' credit card information?
- Do our policies and procedures meet PCI DSS requirements?
- Do we properly screen and train our employees?
- Do we ensure our contracted service providers also protect our customers' information?



Previous audit recommendation:

- ✓ Municipal Court: revise procedures and submit to Accounting for approval.

- ✓ Status = Implemented



IAP #1

Observation:

Some departments did not maintain current lists of point-of-sale (POS) devices and/or did not perform inspections.

Recommendations:

1. Maintain an up-to-date list of POS devices.
2. Conduct and document inspections of all card-reading devices (both swipe and chip/dip).



IAP #2

Observation:

Some departments did not fully comply with requirements related to contracted service providers (i.e. required contract language, due diligence, and monitoring).

Recommendations:

1. Refresher training for staff.
2. Relevant guidance in policies.
3. Controls to ensure annual monitoring occurs.
4. Amend existing contracts.



IAP #3

Observation:

One department did not have required procedures in place prior to accepting credit cards.

Recommendations:

1. Internal control – No merchant account access should be provided until Accounting receives required procedures.
2. Remedy current non-compliance by submitting required procedures to Accounting.



IAP #4

Observation:

Prohibited storage of sensitive credit card information.

(Note: this was not a wide-spread problem; it was limited to a few records at one department.)

Recommendation:

1. Destroy prohibited data and discontinue this practice.



Follow-up Review Red Mountain Multigenerational Center (RMMC)

RMMC – Follow-up Review



Previous audit recommendations:

- ✓ Staff training should be consistent with established policies and procedures.
 - ✓ Monitor compliance with cash handling procedures.
 - ✓ Use member photos to verify ID upon entry.
- ✓ Status = Implemented



Follow-up Review Housing Rehabilitation Program

Housing Rehab Program – Follow-up Review



Previous audit recommendations:

- ◆ Document exceptions to program requirements.
- ◆ Obtain required signatures on change orders before work proceeds... OR... amend the Administrative Plan to allow for an alternative process.
- ◆ Status = In Progress

Questions?



City Auditor Proposed FY2019 Audit Plan





Audit Plan Overview:

- Current work in progress
- New audits planned for FY 2019
- Follow-up reviews due in FY 2019
- Other activities



Current work in progress:

- Arts & Culture – Agreements with Nonprofit Support Organizations
- PRCF – Dobson Ranch Golf Course & Restaurant Contracts
- Citywide – Procurement Card Program
- Financial Services – Eastmark CFD
- Transportation – Contract Monitoring Follow-up Review



New* audits:

- Purchasing – Procurement Processes
- Development & Sustainability – Fees & Charges
- Benefits – Claims Administration Contract
- Police – Jail Services Contract
- Utilities – Metering Processes
- Fire & Medical – Transport Services & Billing
- PRCF – Convention Center

*or carried over from FY18 Audit Plan



Follow-up reviews:

- CDBG Contract Monitoring
- Housing Rehab Program (2nd follow-up)
- Facilities Maintenance Contract Monitoring
- i.d.e.a. Museum Earned Revenues
- Police Supplies & Equipment
- Payroll & Timekeeping (delayed)
- Police Off Duty Program (2nd follow-up delayed)



Other Activities:

- Citywide Cash Handling Audits (continuous)
- PCI DSS Annual Review
- Fraud & Ethics Hotline Investigations
- Consulting (limited reviews, other projects, etc.)
- Unscheduled Audits



Questions or changes?

Forward to Council Study Session?