



## AUDIT, FINANCE & ENTERPRISE COMMITTEE

March 3, 2016

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 3, 2016, at 9:40 a.m.

### COMMITTEE PRESENT

Chris Glover, Chairman  
Alex Finter  
Kevin Thompson  
Christopher Brady, Ex Officio

### COMMITTEE ABSENT

None

### STAFF PRESENT

DeeAnn Mickelsen  
Alex Deshuk  
Jim Smith

Items on the agenda were discussed out of order, but for purposes of clarity will remain as listed on the agenda.

#### 1. Items from citizens present.

There were no items from citizens present.

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

##### 1. City Attorney Property and Public Liability Claims Management

City Auditor Jennifer Ruttman stated that the audit (**See Attachment 1**) focused only on the administrative function of the Property and Public Liability (PPL) claims management process and minimizing the risk of fraud. She explained that some great policies and procedures were in place, but have not been updated to reflect the current staffing model. She has requested that the written policies and procedures be updated to reflect current practices, expectations, and organizational changes.

Ms. Ruttman stated that segregation of duties is a general internal control that helps to prevent fraud by prohibiting one person from having complete control over one process from start to finish. She explained that the department did not have that segregation, operationally speaking, and had one person handling the process from start to finish. She recommended that, to ensure procedures were being followed, such duties be segregated as indicated in the department's procedures, and that this process be reinforced through RiskMaster security settings.

Ms. Ruttman explained that smaller scale software applications that are owned and managed by the departments, rather than the Information Technology Department (ITD), add more vulnerability regarding access and security rights. She stated that the RiskMaster system should help enforce the rules of segregation of duties, as well as allow audit tracking. She stated that the old system was not tracking changes and some items went missing, likely due to deletions that should have been voided or made inactive to allow for proper recording. She reported that her department worked with the City Attorney and Workers Compensation to implement the same system, but with the authorities in place as to who can make changes and who has what access. She added that data could not be deleted from the system without the assistance of ITD staff. She said that she would follow up on the audit in twelve months.

Chairman Glover thanked staff for implementing those changes so quickly.

## 2. Information Technology Department Inventory Management

Ms. Ruttman explained that this audit (**See Attachment 2**) was conducted to evaluate the effectiveness of internal controls related to ITD procurement and inventory management processes. She reported that ITD built their own system for tracking inventory and had a very good process in place, however, staff was not consistent with entering the information into the system. She confirmed that ITD staff is developing a report that informs supervisors that records are being updated.

## 3. Annual Credit Card Security Review

Ms. Ruttman announced that this audit (**See Attachment 3**) was the Annual Credit Card Security Review used as 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). She explained that ITD looks at the system function behind the scenes for security and reports compliance annually. She pointed out that the Accounting Services Division reviews the point of sale operation, where the credit card payments from customers are accepted by City employees. She added that it is important to verify that each terminal is secure and tamper-proof, and that we are compliant on the operational side.

Ms. Ruttman reported that employees were not taking the annual training needed to learn the procedures for handling credit cards. She indicated that the Accounting Services Division has done a great job in developing the training and making it available online, but employees had no mechanism in place to alert them when the training was due. She provided her recommendation that a process be implemented to track employee training and ensure compliance. She added that two departments need to update the written procedures due to new requirements with PCI DSS.

## 4. Public Defender Contract Administration Follow-Up Review

Ms. Ruttman stated that this audit (**See Attachment 4**) was a follow-up review to determine whether the City has effectively implemented the action plans developed in response to the audit performed in November 2014. She explained that public defenders are contracted by the City to provide services in the courts, but must be managed by the City Manager's Office in order to avoid conflict. She reported that the following recommendations were made:

- Formal written procedures should be developed for the administration of Mesa's public defender contracts and more than one employee should be familiar with the process.
- The City's public defender contracts should be revised to include caseload limits in accordance with professional standards and case law.
- Public defenders should be required to submit complete and accurate reports, and invoice data should be reconciled with updated court records annually to ensure that any differences which may have been overlooked during monthly processing are detected and corrected.

Ms. Ruttman confirmed that the review found that most corrective actions have been implemented successfully. She noted that the public defender contracts will be revised to include language that ensures consistency. She added that the Public Defender Contract Administrator will ask the Court to generate a report of all the activity for each public defender over the past year, in order to reconcile their monthly reports.

#### 5. Parks, Recreation and Community Facilities; Aquatics Revenue and Administration Follow-Up Review

Ms. Ruttman reported that this audit (**See Attachment 5**) was a follow-up review from last March, when recommendations were made regarding the Aquatics revenue and administration. She stated that one recommendation was to have oversight for the reconciliation of actual sales transactions at the end of each season. She added that Aquatics reconciled to a manual log, rather than what was actually sold and staff is continuing to improve that process.

Ms. Ruttman explained that her staff is working with Aquatics to develop written procedures in order to adequately train Aquatic staff. She added that improvements have been made following her recommendations related to program oversight to identify noncompliance. She clarified that audits are performed periodically due to the turnover in Aquatics, but they continue to improve. She noted that she would not be doing an additional follow up, unless directed.

Chairman Glover thanked staff for an excellent job.

#### 2-b. Discuss and provide a recommendation on a policy for the utilization of City departmental savings for projects that would benefit the City of Mesa.

Chairman Glover stated that departments were asked to find 2% savings for this fiscal year, which would go into the General Fund to be used citywide. He felt that the process created a dependence on unused funds and stifled the creativity and innovation from staff by prohibiting the ability to be innovative with the savings. He added that his understanding is that, in order to fund a project that extends into multiple fiscal years, staff must submit a request to upper management or the Office of Management and Budget to release the frozen funds.

City Manager Christopher Brady explained that all savings during the year are carefully identified as either one-time savings or savings recurring over time. He reported that all departments are asked to create savings to help close the gap and realign the City's expenses with revenues, due to the fact that the City is spending \$10 million more per year than it generates. He indicated that Mesa has programs and initiatives to incentivize departments for

providing innovative ideas or ways to save that result in improved efficiencies. He added that departments maintain a life-cycle list and are asked to review that list first when savings are found.

In response to a question from Chairman Glover, Mr. Brady explained that his department works with staff to list life-cycle items that have not been funded or have become obsolete, in order to fund those incrementally over the years when possible. He clarified that as savings occur, the Office of Management and Budget has to identify if savings are recurring or just a one-time amount, which allows us to buy or replace equipment. He reiterated that the first priority is to save 2% in this budget year to close the gap and any savings beyond that would help fund the life-cycle list.

In response to a question from Chairman Glover, Mr. Brady replied that Mesa currently has a pilot program that offers kiosks for utility payments, which is a great example of an efficient idea from staff that also helps the residents. He added that Mesa funded the kiosks knowing there would be a payback.

Chairman Glover suggested that the departments that save beyond the requested 2% be offered 50% - 100% of the additional savings to use to increase departmental efficiency, enhance customer service or the overall customer experience.

Mr. Brady stated that Mesa had an incentive program in the past that included the requirement that all ideas be presented with a business plan and evidence showing how the idea would be effective. He emphasized the importance of working with all departments to identify their priorities and that life-cycle issues that are pushed and left unfunded will eventually cost the City more money. He agreed to direct staff to come back with another incentive program this year that promotes innovation.

In response to a question from Chairman Glover regarding savings caused from unfilled vacant positions, Mr. Brady said that vacancy savings usually cover retirement payouts, vacation, sick leave, and overtime to provide services for that position. He added that if a vacant position will not be filled, then it becomes recurring savings and sometimes initiates a new job description reflecting revised responsibilities.

In response to a question from Committeemember Finter regarding vacancies of tenure employees, Mr. Brady explained that most of those situations are already forecasted. He added that money is budgeted to backfill those positions to attempt to close those gaps as best they can before the employees leave.

In response to a question from Mr. Brady, Office of Management and Budget Director Candace Cannistraro stated that the longevity benefit has decreased so much that it is no longer a major impact on the budget cycle. She explained ways that savings are experienced when senior employees leave the City.

Chairman Glover commented that his goal was for department directors to empower their employees by asking them where efficiencies can happen.

Mr. Brady explained that Mesa has an in-house program when employees are nominated for innovative ideas or exceptional customer service and are recognized and rewarded in front of supervisors a few times per year.

2-c. Hear a follow-up presentation, discuss, and provide a recommendation on how the Public Information and Communications Department could utilize, or centralize, departmental Public Information Officers.

Public Information and Communications Director Steven Wright displayed a PowerPoint presentation related to how the Public Information and Communications Department could utilize, or centralize, departmental Public Information Officers. **(See Attachment 6)**

Mr. Wright indicated that prior to 2006, Mesa had only two position classifications that dealt with Marketing and Communications which were Marketing Communications Specialists (MCS) and Public Information Officers (PIO). He illustrated that 3 PIO positions were under Police and Fire and 27 MCS positions were citywide. (See Pages 2 and 3 of Attachment 6)

Mr. Wright explained that in 2006, a study was done that resulted in reclassifying seven MCS positions into Public Information and Communications Specialists (PIOs) positions with a much broader area of coverage throughout the City, whereas the MCS positions continued marketing the services of only their specific departments. He also noted that the Public Information Office was renamed Public Information and Communications Office, rather than Marketing and Communications Office. (See Pages 4 through 7 of Attachment 6)

Mr. Wright displayed charts illustrating the makeup of the current PIO and MCS positions in Mesa. (See Pages 8 and 9 of Attachment 6)

Mr. Wright explained that the PIO and Marketing staff work together to coordinate citywide efforts and ensure communication. He reported that a media contact email list was created and is used to quickly alert staff of any media contact taking place. He stated that staff holds weekly coordination meetings on both traditional media and social media to discuss what is being pitched, who is in touch with the media, and decide if any messages need to stand alone due to an overall citywide importance. He added that staff also updates a shared spreadsheet that captures everything discussed in the meetings and listed all departments that are represented in the weekly coordination meetings. (See Pages 10 and 11 of Attachment 6)

Mr. Wright highlighted the following strategies moving forward:

- Updated strategic communications plan
- Updated social media policy
- Social media guidelines
- Continue to develop social media command center (part-time intern)
- Develop Mesa news application at the City Manager's request

Committeemember Finter thanked Mr. Wright for the presentation. He stated that although staff is physically decentralized, he learned that staff is very centralized in regards to communication between all departments and that social media is the key. He commented that he appreciates staff constantly looking for opportunities and improvements. He added that his Council Assistant, Randy Policar, also serves a dual role as the Council's PIO in order to save money

and benefits and does a great job. He stated that he appreciates that physical separations within the City will not prevent opportunities from being offered to skilled employees.

Committeemember Thompson concurred with Committeemember Finter. He advised that sometimes opportunities are missed in social media, such as looking at the hot topics of the day. He mentioned an example of misinformation sent from a reporter inferencing that Mesa has inadequate water, which stemmed from the situation in Flint, Michigan.

Mr. Brady responded that Mesa had sent out a press release reporting on the City's water quality a week prior, but the challenge is knowing where the residents go for their information.

Mr. Wright explained that Mesa has an intern from Benedictine University who works 15 hours per week monitoring Mesa's social media sites, which has a great impact.

Mr. Brady requested that the Council assist staff by passing along any hot button issues in order to get information out quickly as well.

Chairman Glover thanked staff for the presentation.

Chairman Glover excused Committeemember Thompson at 10:10 a.m. from the remainder of the meeting.

2-d. Hear a presentation and discuss the plan to eliminate pre-2008 general obligation bond debt.

Office of Management and Budget Director Candace Cannistraro displayed a spreadsheet (**See Attachment 7**) that detailed the schedule of the pre-2008 debt service outstanding. She pointed out the current pre-2008 authorized debt, which is the subset of the full debt service that is currently outstanding with the City. She explained that the pre-2008 means the bond authorization prior to 2008, not necessarily issued before 2008.

In response to a question from Chairman Glover, Ms. Cannistraro confirmed that the City did not levy a secondary property tax for anything that was authorized prior to 2008, however, a portion of the secondary property tax levy is being used to pay off debt that was issued on authorizations prior to 2008.

Chairman Glover commented that it was his understanding that the property tax would only pay debt that was bonded post-2008, rather than pre-2008.

Ms. Cannistraro advised that secondary property tax is eligible to be used on any outstanding General Obligation (GO) debt during a budgetary issue. She indicated that within the original \$14.1 million secondary property tax levy, was \$2.6 million used for debt service associated with authorization that was prior to 2008, due to budgetary concerns and the inability to meet operating expenses at that time. She expanded that by saying in order to make room in the operational budget, \$2.6 million of the levy was dedicated to operate Fire Stations 219 and 220 that Mesa was able to build but lacked the capacity to operate. She stated that a portion of the levy is covering debt service that is associated with bond authorizations prior to 2008.

In response to a question from Chairman Glover regarding plans to pay for future debt, Ms. Cannistraro explained that each time an authorization is approved by voters, that authorization

is linked to a particular levy that will pay for the debt service associated with that particular authorization. She said that over time the Council can decide to specifically use a portion of the levy to help offset operational budget by paying part of the pre-2008 debt. She provided examples of such decision: (1) Fire Stations 219 and 220, and (2) the FY 13/14 budget was adopted and added a levy of \$2.4 million.

Chairman Glover and Committeemember Finter commented that they both voted against that second decision.

Committeemember Finter stated that Mesa needed to make an exception during the recession in order to staff the fire stations. He added that his concern is how the exceptions are being communicated to the residents.

Ms. Cannistraro noted that the column labeled "Property Tax Levy – Authorized in 2012 & 2013 but Not Yet Issued" does not impact the levy itself, but is rather a reflection of temporary capacity. She explained that when an authorization is approved by the voters, such as parks bonds in 2012, the City only issues what is needed for a 12-month period to save money on interest costs.

Committeemember Finter stated that his concern is that the City is already levying the tax on the residents for years before the bond is executed, such as with the parks' projects. He mentioned that he was told that revenue is being used to pay old bond debt.

Ms. Cannistraro clarified that staff has used the park levy to accomplish the following:

- The City has alleviated the need for a general fund transfer due to having the ability to use the levy on pre-2008 existing GO bond debt for budgetary purposes.
- The City has saved millions of dollars over the course of the debt service period by taking advantage of the ability to pay a principal amount in the first year, allowing it to be paid off faster and sooner.

Committeemember Finter commented that the delay on the parks is not appreciated by the voters.

Chairman Glover concurred with Committeemember Finter and compared the situation to a bait and switch to the citizens. He stated that it may be legal but it does not feel right.

Committeemember Finter added that he understands staff's reasons, but the parks bond informed voters that they would start being charged and that parks would start being built. He stated that it is years later and those voters have been paying for but are not seeing any parks being built and that is concerning.

Ms. Cannistraro replied that she understands the frustrations of residents and staff relating to the complications regarding the parks and the school district, which have delayed a few of those parks. She explained that it was a conscious decision to set the levy at one particular rate knowing that it was a 4-year program to issue those bonds.

In response to comments from Chairman Glover and Committeemember Finter, Ms. Cannistraro conceded that staff could have done a better job at communicating that a normal CIP cycle is four years and could provide a schedule for the projects.

Chairman Glover remarked that the Riverview project was expedited and moved much faster than four years, while other parks projects are still waiting.

Ms. Cannistraro declared that, in order to keep Council better informed in the future, staff would provide more status updates on projects and any issues that may be delaying the plans.

Committeemember Finter commented that the grand plans for a \$57 million dollar sports complex and ASU have spurred newspaper articles indicating that Mesa lacks the operating revenue to deal with the last bonds and his concern is how that affects the City's credibility.

Ms. Cannistraro continued by saying that other funding sources are on the graph and highlighted the forecasted revenues as follows:

- The Build America Bonds Reimbursements, which is assumed to be reimbursed by the federal government but is not guaranteed.
- Any revenue that does not come in as anticipated will require a general fund transfer.
- Court Construction Fee Revenue until paid off.
- Impact fees are increasing over the last year, based on building and construction growth and building permits on the residential side, which pays the police and fire impact fees.
- Last column is normal financial savings; interest rates that come in better than anticipated, delinquencies on property tax collected at later time, etc.

Committeemember Finter commented that a lot of good things have been accomplished and are worth celebrating.

Chairman Glover thanked staff for the presentation.

### 3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 10:49 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 3<sup>rd</sup> day of March, 2016. 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 – 7)

## AUDIT REPORT

CITY AUDITOR

<b>Report Date:</b>	<b>December 8, 2015</b>
<b>Department:</b>	<b>City Attorney</b>
<b>Subject:</b>	<b>Property and Public Liability Fund/Claims Management</b>
<b>Lead Auditor:</b>	<b>Kate Witek</b>

### OBJECTIVE

The audit was conducted to determine whether internal controls associated with the Property and Public Liability (PPL) claims management process are in place and operating effectively to ensure compliance with applicable laws and policies and to minimize the risk of undetected errors or fraud.

### SCOPE & METHODOLOGY

To accomplish our objective, we:

- Interviewed staff and management to gain an understanding of the Property and Public Liability (PPL) general claims process and the internal control environment.
- Evaluated application level user security and processing controls within the RiskMaster claims management system.
- Performed detailed testing of claim payments processed during the two fiscal years ended June 30, 2015.

### BACKGROUND

When Notices of Claim (NOC) against the City are filed in the City Clerk's office, they are immediately forwarded to the City Attorney's office for evaluation and resolution. The litigation division, staffed with 3 attorneys, 2 paralegals, 2 legal assistants, and 1 claims analyst, manages this process, which may or may not end with settlement or litigation.

The City of Mesa is self-insured for the first \$3M in costs for any incident that results in a liability settlement, and purchases excess liability insurance for costs exceeding this threshold. The City also purchases property insurance to protect an estimated \$1B in assets. This policy has a \$50K deductible (\$25K for vehicles), and a limit of \$300M per occurrence. The costs for these policies, as well as all settlements and costs to defend the City against claims and lawsuits, are paid by the PPL Trust Fund.

The PPL fund has a FY 2016 budget of \$5.5M. Unpaid future claims are actuarially estimated and reported annually in the City of Mesa Comprehensive Financial Report. Additional oversight is provided by the City's Self-Insurance Trust Fund Board, which makes recommendations to the City Council pertaining to the financial viability of the trust fund.

## **CONCLUSION**

In our opinion, internal controls associated with PPL claims management are adequate to provide reasonable assurance that the process is managed in accordance with applicable policies, laws and standards. In addition, payment processing controls, including the system interface process between RiskMaster and Advantage (financial system), are sufficient to ensure claims transactions are complete and accurate. However, we noted a few areas in which additional controls could be implemented to further reduce the risk of undetected errors or fraud. Our observations and recommendations are summarized below. For additional details and responses from management, please see the attached Corrective Action Plans (CAPs).

## **OBSERVATIONS & RECOMMENDATIONS**

### 1. Policies and Procedures

Detailed written policies and procedures are in place, but have not been updated annually as required by department policy. We are recommending that these documents be updated to reflect current practices, expectations, and organizational changes.

### 2. Segregation of Duties

The City Attorney has established written procedures that include segregation of duties, a standard internal control for reducing fraud risk. For example, multiple individuals are involved in the check issuance process, which reduces the risk of improper payments. In addition, the procedures indicate that the duties of receiving, opening, and closing claims are appropriately segregated from the duties of investigation, settlement, and other claim processing activities. In recent practice, however, the duties of receiving, opening, investigating, settling, and closing claims have primarily been performed by one individual. We are recommending that these duties be segregated as indicated in the department's procedures, and that this segregation be reinforced through RiskMaster security settings.

### 3. RiskMaster System Security & Administration

The RiskMaster system is used to manage both PPL and Workers' Compensation claims. The system has security settings that allow for a user to be assigned to one or more role-based groups, each of which can be configured to allow or deny the user the ability to perform specific tasks in the system. These settings should be managed by a System Administrator; and changes should be approved by a Data Custodian.

Currently, the RiskMaster System Administrator role (which applies to both the PPL and Workers' Compensation areas of the system) is assigned to 2 employees in the Safety Services/Workers' Compensation office; and there are no officially designated Data

Custodians. In addition, a formal process has not been established for requesting or granting access to the system, or for ensuring users are assigned the most appropriate roles and permissions for their job duties. We are recommending that the City Attorney's Office work with Safety Services and ITD to develop an appropriate process for RiskMaster system administration. This should include designating a separate data custodian for each side of the system, and establishing protocols for managing user roles & permissions.

As a rule, it is a best practice in any sequential record system to "void" (rather than delete) an erroneous or un-needed record. However, if deletions are deemed necessary, it is important to have protocols in place for authorization and documentation. The RiskMaster system has a history tracking feature called "Change Data Capture" (CDC), which tracks the history of all changes to selected fields. It also tracks when records are added, updated, or deleted. However, prior to this audit, the CDC feature was not enabled. We found that a small number of claim files have been deleted from the RiskMaster system, with no explanation and no audit trail. While the number of claims deleted is not significant, the absence of an audit trail is, by definition, an internal control deficiency. We are recommending that protocols be implemented for authorization and documentation of claim deletions, and that the CDC feature be configured to track deletions and other unusual transactions.

## CAP#1: Policies and procedures

**Observation:** Detailed written policies and procedures are in place, but have not been updated annually as required by department policy.

**Criteria:** According to the City Attorney's Litigation Policies (rev. March 2008):  
*"The litigation team has a number of policies and procedures that it follows to ensure that the team provides quality legal/litigation services to the City of Mesa and its clients in a proper, professional manner. In order to keep these policies and procedures current and effective, an annual review will be conducted. This review will determine whether the policies and procedures need to be updated, changed or modified. The annual review process is as follows:*

- 1. **Review of Current Litigation Policies:** Each year, during the month of November, the Deputy City Attorney will review all of the litigation policies, to determine if any policy needs to be updated.*  
*The Deputy will meet with the litigation team attorneys to discuss any recommended changes. Thereafter, the Deputy City Attorney, in consultation with the City Attorney, will determine which, if any, changes, modifications and/or additions will be made to the litigation policies and procedures. The decision to adopt any changes or modifications to the litigation policies will be made by the Deputy City Attorney by the end of December.*
- 2. **Implementation of Updated Litigation Policies:** The Deputy City Attorney will prepare the updated litigation policies by mid-January. After approval by the City Attorney, the updated litigation policies will be distributed and will go into effect."*

**Comments:** We agree with the City Attorney that an annual review/update of written policies and procedures is an important process, which helps to ensure that a team provides quality services in a proper, professional manner.

**Recommendations:** 1-1. Risk management and litigation policies and procedures should be regularly reviewed and updated to incorporate organizational and process changes and to ensure they continue to reflect management's expectations.

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**Management  
Response:**

1-1. Agree.

**Implementation Plan:**

The legal assistant to the Litigation Deputy has entered onto the litigation calendar a recurring annual review of the written litigation and claims (risk management) procedures, which will trigger reminders to all litigation attorneys, the RMCA, and the legal assistant to the Deputy.

**Individual or Position Responsible:**

Legal assistant to the Deputy City Attorney over litigation.

**Estimated Completion Date:**

Done.

## CAP#2: Segregation of Duties

**Observation:** The duties of receiving, opening, investigating, settling, and closing claims have primarily been performed by one individual.

**Criteria:** According to the RMCA's written procedures:

*"2. Claim Setup*

*The City Clerk delivers new claims to the City Attorney's Office on a daily basis. These are routed to the Legal Support Assistant (LSA) or Management Assistant (MA) for entry into the claims operating system (Riskmaster). Once entered, the claim files are set up and delivered to the RMCA for investigation and disposition. Claim files are setup by the LSA or MA...."*

And:

*"8. File Closure*

*Once a file has been closed through denial or settlement the Riskmaster log notes should be printed and placed in the file on the right hand side. The claim file is then given to the LSA or MA who will close the financials and place the physical file in closed status."*

**Comments:** Segregation of duties is a standard internal control that helps to prevent fraud by ensuring that one employee does not have the ability to execute all phases of a financial process. The underlying basis for this control is that when two or more individuals are involved in a process, fraud is less likely to occur and more difficult to conceal. For example, the current process requires multiple individuals to be involved in the check issuance process, which reduces the risk of improper payments. However, to be most effective, it is also important to examine an entire process and choose the most "incompatible" duties to segregate. Incompatible duties are those which, when combined, are most likely to facilitate a fraud.

According to the procedures cited above, the City Attorney has already segregated incompatible duties within the claims management process, such that one individual should not be able to receive a claim, open the electronic claim file, investigate the claim, negotiate a settlement, and close the electronic claim file. In recent practice, however, the duties of receiving, opening, investigating, settling, and closing claims have primarily been performed by one individual.

Staff in the City Clerk's office reported that they deliver Notices of Claim directly (and only) to the RMCA in the City Attorney's office. The RMCA opens the electronic claim file, investigates the claim, hires consultants, negotiates the settlement, authorizes the payment (up to \$5,000), and closes the claim file. Settlements above \$5,000 must be approved by the Deputy City Attorney. The written procedures cited above, which require the involvement of the LSA or MA, have not been followed.

**Recommendations:** 2-1. The duties of receiving a claim and opening/closing an electronic claim file should be segregated from the duties of investigating and settling a claim. This segregation should be incorporated into staff assignments and should be reinforced through RiskMaster user security roles and permissions.

**Management  
Response:**

2-1. Agree.

**Implementation Plan:**

1. The claims process has been revised so that notices of claim are sent directly from the City Clerk to the ASA II in the City Attorney's Office. The ASA II opens claims, and ultimately closes them. The Risk Management Claims Analyst does not open or close claims.
2. The RiskMaster System Administrator (currently the Safety Administrator and her MA I) changed security roles and permissions so the RMCA may not open or close claims in RiskMaster. Because of the limited number of people who handle claims for the City, it will be necessary at times to provide temporary claims opening/closing authority to the RMCA, but that must be authorized and documented in emails from the Deputy to the System Administrator.

**Individual or Position Responsible:**

The City Clerk sends claims directly to the ASA II to be opened. Deputy City Attorney directed Nitra Hawkins to limit claim opening and closing security roles and permissions of the RMCA.

**Estimated Completion Date:**

Done.

### **CAP#3: RiskMaster System Security and Administration**

- Observations:**
- A formal process has not been established for requesting or granting access to the RiskMaster system; or for ensuring RiskMaster users are assigned the most appropriate roles and permissions for their job duties.
  - The City Attorney's office does not have a designated System Administrator or Data Custodian for the PPL side of the RiskMaster system.
  - Prior to this audit, the RiskMaster system's history tracking feature, which tracks the history of record changes, additions, and deletions, was not enabled.

**Criteria:** Information technology general control standards for the configuration of application-level security settings dictate that users should only be assigned the access permissions necessary to perform their specific job duties. All requests to add new users and/or make changes to an existing user's access permissions should be approved by a designated Data Custodian. Ideally, the System Administrator and the Data Custodian should not be the same person.

Internal controls should be designed to help ensure the accuracy and completeness of data during processing. According to Government Auditing Standards, an internal control deficiency exists when the design or operation of a control does not allow management to prevent, detect, or correct an impairment, misstatement, or noncompliance. For example, the ability for a system user to delete a record without leaving an audit trail is a significant deficiency, because it allows evidence of irregularities to be destroyed.

As a rule, it is a best practice, particularly in a sequential record system to "void" (rather than delete) an erroneous or un-needed record, because this removes the record from the active population while preserving the data for future reference and audit purposes. However, if deletions are deemed necessary, internal controls should be implemented to ensure deletions are appropriate and authorized; and to preserve an audit trail.

**Comments:** The RiskMaster system is used to manage both PPL and Workers' Compensation claims. The system has security settings that allow for

a System Administrator to assign users to one or more role-based groups, each of which can be configured to allow or deny the user the ability to perform specific tasks in the system. The current configuration of user roles and permissions in the RiskMaster system does not limit all users to only the access needed to perform their assigned job duties.

Currently, the RiskMaster System Administrator role (which applies to both the PPL and Workers' Compensation areas of the system) is assigned to 2 employees in the Safety Services/Workers' Compensation office; and there are no officially designated Data Custodians.

The RiskMaster system has a history tracking feature called "Change Data Capture" (CDC), which tracks the history of all changes to selected fields. It also tracks when records are added, updated, or deleted. However, prior to this audit, the CDC feature was not enabled. A small number of claim files have been deleted from the RiskMaster system, with no explanation and no audit trail; and, while the number of deleted claims is not significant, the absence of an audit trail is a control deficiency.

- Recommendations:**
- 3-1. The City Attorney's office should work with Safety Services and ITD to develop an appropriate process for RiskMaster system administration. A System Administrator and a Data Custodian should be designated for each side of the system, and protocols should be established for managing user roles & permissions. In addition, a mutually acceptable process for the deletion of claims should be established and documented. The process should include internal controls to ensure deletions are appropriate and authorized; and to ensure that an effective audit trail is preserved.
  - 3-2. RiskMaster system history tracking, i.e. the Change Data Capture feature, should be configured to track changes to claim records, user groups and permissions, deletions, and other unusual activities.

**Management Response:**

3-1. [Agree.](#)

**Implementation Plan:**

[The System Administrator currently oversees all of RiskMaster.](#)

The Litigation Deputy serves as the Data Custodian.

The Litigation Unit does not delete claims; nor are any of its staff authorized in Riskmaster to do so. Any extraordinary circumstance that might require deletion could be addressed in RiskMaster by Nitra, but only after the Deputy has authorized the deletion and documented the request.

**Individual or Position Responsible:**

Deputy City Attorney

**Estimated Completion Date:**

Done.

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**3-2. Agree.**

**Implementation Plan:**

The RiskMaster tracking feature is turned "on". Only the System Administrator can change this setting.

**Individual or Position Responsible:**

The Litigation Deputy City Attorney confirmed with the Safety Administrator that the tracking feature in RiskMaster is "on".

**Estimated Completion Date:**

Done.



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PO Box 1466  
Mesa, Arizona 85211-1466

## AUDIT REPORT

CITY AUDITOR

<b>Report Date:</b>	<b>December 8, 2015</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**

This audit was conducted to evaluate the effectiveness of internal controls related to ITD procurement and inventory management processes.

### **SCOPE & METHODOLOGY**

We interviewed ITD staff, observed stockroom operations, reviewed and tested the asset procurement, receipting, and deployment processes for the 6 months ended 6/30/2015, and performed other tests and procedures as necessary to meet the audit objectives.

### **BACKGROUND**

ITD's Asset Management team uses an internally developed system, known as Service Management and Resource Tracking (SMART), to track IT assets from procurement through deployment, and to maintain detailed service and inventory records related to those assets.

#### Process Overview

A catalog of approved assets is maintained within SMART, and departments use this system to place orders. Each order is reviewed and approved from a functional and technical aspect prior to a Purchase Order (PO) being initiated. This ensures that the purchase is needed (i.e. we don't already have one in inventory), that it is compatible with existing systems, and that it is in alignment with ITD strategic plans. Approved purchases are ordered and shipped to the ITD Stockroom, where staff records the received items in SMART and notifies the deployment team that the items have arrived. When an item is removed from the Stockroom, the name of the employee who picked it up is recorded in SMART, thereby assigning temporary custody of the item until it is placed into service at its final location. After the deployment process is complete, SMART is updated with specific location and ownership information, so that the asset can be accurately inventoried and located when necessary.

**CONCLUSION**

In our opinion, internal controls related to ITD's procurement and inventory management activities are 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 existing controls related to the accuracy and completeness of chain of custody and location data. For specific observations & recommendations, as well as responses from management, please see the attached Corrective Action Plan (CAP).

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**CAP #1: Accuracy and Completeness of SMART Records**

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**Observations:** Internal controls are not always effective in tracking chain of custody and/or location data for assets, from the time they are picked up at the ITD Stockroom through deployment to their final destination. Specifically, the identity of the individual who picks up the asset from the Stockroom is not always recorded; and the final location is not always updated after the deployment is complete.

**Comments:** ITD Stockroom procedures require staff to document the identity of an individual who picks up an asset from the Stockroom, both in the SMART Asset Management module and in the related SMART Task. However, we found that in some cases this procedure was not completed, or was only partially completed.

In addition, the individual who deploys an asset is responsible for updating the SMART asset location field to indicate where the asset was deployed. This step, which is intended to ensure that the asset can be tracked and located at any time, was not always completed.

Staff compliance with these procedures has not been actively monitored.

**Recommendation:** 1-1. 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.

1-2. ITD managers should actively monitor compliance with established procedures for updating SMART asset location information, both during and after deployment.

**Management Response:**

1-1. [Agree.](#)

**Implementation Plan:**

[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.](#)

**Individual or Position Responsible:**

[Angie Earl, IT Manager](#)

**Estimated Completion Date:**

[5/16/2016](#)

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1-2. Agree.

**Implementation Plan:**

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.

**Individual or Position Responsible:**

Angie Earl, IT Manager

**Estimated Completion Date:**

5/16/2016

## AUDIT REPORT

CITY AUDITOR

<b>Report Date:</b>	<b>February 23, 2016</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 31 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 v3.1*, April 2015. 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 2015, the PCI DSS was updated to Version 3.1, which provided clarification and guidance, as well as some changes and additional requirements designed to align the Standards with new technologies and emerging threats. For the purpose of this review, some of these new

requirements were not fully tested, because updated training had not yet been provided in many departments. These requirements will be more fully tested during next year's review.

## **CONCLUSION**

### **Prior Year Issues:**

Our 2015 report included specific recommendations, which were necessary to ensure continued compliance with PCI DSS requirements. Most of the corrective actions have been implemented, but some were still in progress at the time of this follow-up review. Additional information regarding the status of prior year CAPs 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 two issues that warrant management's attention. Our findings and recommendations are summarized below; and additional details are presented in the attached Corrective Action Plans (CAPs). Since numerous departments are involved in these issues, a complete list of responses is not included in this report. However, all affected departments have been asked to submit responses to the recommendations, and next year's review will include follow-up testing to verify that each of these departments has successfully resolved all outstanding issues.

## **SUMMARY of FINDINGS & RECOMMENDATIONS**

1. We found that 37% of employees who handle credit cards (125 out of 342 citywide) had not attended the required annual training. We are recommending that each department in which employees handle credit cards implement a reliable process to ensure compliance with annual training requirements. Employees and their supervisors should be notified of upcoming due dates for training, and the employees should be required to complete the training on or before their respective due dates.
2. Two departments' written procedures and training materials still do not meet PCI DSS v3.1 requirements related to POS terminals, card swipe/dip devices, and access to Primary Account Numbers (PANs). We are recommending that these departments revise their procedures, as requested by the Accounting Services Division, to include all requirements; and submit them to the Accounting Services Division for approval, as required by Management Policy 212.

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**CAP #1: Non-compliance with credit card training requirements.**

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**Observation:** Many employees who handle credit cards have not attended the required annual training:

<b>Department</b>	<b>Overdue</b>	<b>Total</b>	<b>%</b>
Arts & Culture	40	63	63%
Business Services	11	68	16%
Court	6	28	21%
Development Services	9	10	90%
Falcon Field	0	5	0%
Library	26	49	53%
Police	8	45	18%
PRCF	25	74	34%
<b>Citywide Total</b>	<b>125</b>	<b>342</b>	<b>37%</b>

**Comments:** PCI DSS requires that credit card handlers be educated upon hire and at least annually regarding the importance of cardholder data security.

Management Policy 212 requires that "all personnel involved in the handling of Cardholder Data shall receive annual training on Credit Card Handling Procedures..." These employees are also required to acknowledge at least annually that they have read and understand the associated policies and procedures.

Management Policy 212 states that "the Accounting Services Division shall be the office of primary responsibility for the development, implementation and continuous improvement of the Credit Card Handling Policy." The policy also requires them to "approve Department and Division credit card handling procedures" and "Develop and deliver training on PCI DSS requirements and Credit Card Handling Procedures."

Last year, we recommended that Accounting Services track compliance with credit card training requirements and ensure employees and supervisors are notified when they are due for annual training. In addition, we recommended that a communication plan be implemented to help ensure information regarding available training reaches those who need it.

In response to last year's recommendations, the Accounting Services Division noted several ways in which they planned to

improve this process. Unfortunately, while there have been some improvements made to the training itself, the process for notifying employees that they are due for training has not improved. As a result, compliance levels have dropped citywide.

- Recommendation:**
- 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.

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**CAP #2: Procedures and training materials require updates.**

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**Observation:** Departmental procedures and/or training materials at the Libraries and Municipal Court as of December 2015 do not meet PCI DSS v3.1 requirements.

**Comments:** PCI DSS v3.1 includes new 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 also 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 the new requirements to these departments and requested that they update their procedures; however, as of the date of this review, these departments had not done so.

**Recommendation:**

- 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.

## APPENDIX / CAP IMPLEMENTATION STATUS REPORT

✓ = Implemented    ♦ = In Progress    ✗ = Not Implemented

### 2015 Recommendations & Responses

### Implementation Status

#### **CAP #1: Non-compliance with credit card training requirements.**

**Recommendation:** Accounting Services should track compliance with credit card training requirements and ensure employees and supervisors are notified when they are due for annual training. We recommend that the Learning Center system be used to accomplish this. In addition, a communication plan should be implemented to help ensure information on available training reaches those who need it.

**Management Response:** Learning Center does not have the capability to track or notify individual employees of upcoming training requirements or training completion dates. Accounting Services had been in contact with ITD and working with ITD prior to this audit to modify the Learning Center to facilitate this, however this is still a work in progress and ITD is actively working this project. We would anticipate this project being completed by end of fiscal year 2015. In the interim, Accounting Services will track CC Handling training requirement due dates manually and manually notify employees of upcoming CC Handling Training due dates.

Employees were notified of available CC Handling Training via "Featured" postings on the Learning Center which gave notice of live CC Handling classes and were often notified directly via email or phone call. Notification generally made approximately 2-3 weeks prior to a training session. Going forward, in addition to continued use of a "Featured" posting on Learning Center, Accounting Services will send email notifications/reminders to all department Fiscal Analyst so that they can notify their members of upcoming training and / or due dates for recurring training requirements.

To further assist with tracking and formalize the designation of citywide Credit Card Handlers, as a process does not currently exist, Accounting Service is implementing a Credit Card Handler registration process whereby departments will be required to

#### **In Progress**

Changes are still being made to the Credit Card Handling Training process to ensure that employees are trained per the requirements. A reliable notification process has not been established; therefore, many employees have not met the credit card training requirements.



✓ = Implemented    ◆ = In Progress    ✗ = Not Implemented

<u>2015 Recommendations &amp; Responses</u>	<u>Implementation Status</u>
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<p>complete a Credit Card Handler registration form listing designated Credit Card handlers. This Form will also incorporate an acknowledgement of card handler training requirements and understanding of City Policy and Procedure. Form will require card handler manager's signature.</p>	
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<b>CAP #2: Procedures and training materials do not meet PCI DSS v3.0 requirements.</b>	
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<p><b>Recommendation 2-1:</b> Accounting Services should revise the "CC101 Minimum Required Credit Card Handling Procedures" and related training materials to include the new PCI DSS requirements related to tampering and substitution inspections on POS terminal and card swipe/dip devices. The new requirements should be disseminated to all personnel with a need to know.</p> <p><b>Management Response:</b> "CC101 Minimum Required Credit Card Handling Procedures" have been updated to include the new PCI DDS requirements. These will be distributed at upcoming live training sessions, emailed to current credit card handlers, and a notification posted on Inside Mesa regarding revised Credit Card Handling Procedures.</p>	<p><b>Implemented</b></p> <p>The "CC101 Minimum Required Credit Card Handling Procedures" have been updated to include the new requirements related to tampering.</p>	
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<p><b>Recommendation 2-2:</b> Accounting Services should ensure that departmental credit card handling procedures are updated as follows:</p> <ul style="list-style-type: none"> <li>• Arts &amp; Culture, Library Services, Materials &amp; Supply, Municipal Court, Police and PRCF should incorporate into their procedures the new POS terminal and card swipe/dip device requirements.</li> <li>• Municipal Court and Tax Audit &amp; Collections 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.</li> </ul> <p><b>Management Response:</b> Accounting Services will provide all departments with updated Minimum Required Credit Card Handling Procedures, which include the PCI DSS v3.0 revisions,</p>	<p><b>In Progress</b></p> <p>Arts &amp; Culture, Materials &amp; Supply, Police, Tax Audit &amp; Collections and PRCF have updated their policies and procedures to include the necessary requirements.</p> <p>However, Library Services and the Municipal Court still need to include the new POS terminal and card swipe/dip device requirements; and the Municipal Court also needs to include a list of roles that need access to</p>	
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✓ = Implemented    ◆ = In Progress    ✗ = Not Implemented

<b>2015 Recommendations &amp; Responses</b>	<b>Implementation Status</b>	
<p>and request that all departments update their procedures accordingly and then submit their revised procedures to Accounting Services for review and approval. The referenced departments above will be included in the process.</p>	<p>displays of full Primary Account Numbers (PANs) along with the business need for such access.</p>	
<p><b>CAP #3: Service provider contract should require PCI compliance.</b></p>		
<p><b>Recommendation 3-1:</b> The department should partner with Purchasing to ensure that this agreement is not renewed unless it is amended to incorporate the PCI DSS requirements.</p> <p><b>Management Response:</b> The vendor has provided the COM with documentation that shows proof of PCI compliance. When we renew or seek proposals in the future all contractual language will include the requirement for PCI compliance.</p>	<p><b>Implemented</b>            The RFP developed for the new contract requires PCI DSS compliance.</p>	
<p><b>Recommendation 3-2:</b> City staff should document which PCI DSS requirements are managed by the vendor and should implement a process to monitor the vendor's PCI DSS compliance status.</p> <p><b>Management Response:</b> The City's contract administrator is developing a process to ensure that applicable vendors certify that they are PCI DSS compliant.</p>	<p><b>Implemented</b>            The City's Contracts Administrator has implemented a Compliance Policy to ensure that applicable vendors certify that they are PCI DSS compliant.</p>	

## **FOLLOW-UP REVIEW**

**CITY AUDITOR**

<b>Report Date:</b>	<b>February 9, 2016</b>
<b>Department:</b>	<b>City Manager</b>
<b>Subject:</b>	<b>Public Defender Contract Administration</b>
<b>Lead Auditor:</b>	<b>Tami Steadman</b>

### **OBJECTIVE**

The objective of this review was to determine whether the City has effectively implemented the action plans developed in response to our November 2014 audit of Public Defender Contract Administration.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we reviewed current public defender contracts; interviewed the Public Defender Contract Administrator (PDCA), and staff members from the Municipal Court and City Prosecutor's office; and reviewed public defenders' monthly reports, invoices and payment records for the first quarter of FY 2016.

### **BACKGROUND**

On November 18, 2014, we issued a report on our audit of the City's Public Defender Contract Administration. The objectives of that audit were to determine whether adequate controls are in place to ensure the City's public defender contracts are administered in accordance with applicable regulations and policies; and that any related risks to the City are minimized.

The audit report included three recommendations, which can be summarized as follows:

1. Formal written procedures should be developed for the administration of Mesa's public defender contracts, and more than one employee should be familiar with the process.
2. The City's public defender contracts should be revised to include caseload limits in accordance with professional standards and case law.
3. Public defenders should be required to submit complete and accurate reports, and invoice data should be reconciled with updated court records annually to ensure that any differences which may have been overlooked during monthly processing are detected and corrected.

In response to the report, management agreed and developed three corrective action plans.

### **CONCLUSION**

Two of the three corrective action plans have been fully implemented, and one was partially implemented. Shortly after the audit, the PDCA duties were transferred to a new individual, who has made significant improvements to the program. Written procedures are now in place, a

backup PDCA has been trained, and contracts have been revised to minimize the risk of excessive caseloads. We appreciate the cooperative efforts of the PDCA and Court staff involved in this process. With regard to the changes that were not implemented, it is our opinion that these items would further improve the process and reduce the risk of errors. However, since these are minor changes, no additional audit follow-up work is planned at this time. A complete list of corrective action plans, along with our findings regarding their implementation status, is presented in the attached Appendix.

**APPENDIX / CAP IMPLEMENTATION STATUS REPORT**

 = Implemented       = In Progress       = Not Implemented

<b>2014 Recommendations</b>		<b>Implementation Status</b>
<b>CAP#1: Lack of Written Procedures</b>		
<p><b>Recommendation 1-1:</b> The PDCA should develop formal written procedures for the administration of public defender contracts. In addition, at least one additional employee should be familiar with the process.</p> <p><b>Management Response 1-1:</b> Formal written procedures for administering the public defender contracts will be developed. Additionally, a person will be identified as a backup for the PDCA and will become familiar with the administration of the contracts.</p>	<p><b>Implemented</b>            Written procedures have been developed and are continuously updated as the PDCA deems necessary.            An additional employee has been assigned and trained as a back-up to the PDCA.</p>	
<b>CAP#2: Contracts Do Not Limit Caseloads</b>		
<p><b>Recommendation 2-1:</b> The City's public defender contracts should be revised to include caseload limits, to be exceeded only upon approval of the Presiding City Magistrate. Objective criteria should be established to ensure consistent and appropriate evaluation of requests for exceptions. Consideration should be given to the types of cases assigned, the average amount of time required to complete those cases, any relevant performance issues, and other appropriate criteria as determined by the Presiding City Magistrate.</p> <p><b>Management Response 2-1:</b> The public defender contracts will be revised to include this language. The new contract will be implemented in June 2015 when the public defender contracts are renewed.</p>	<p><b>Implemented</b>            The contracts effective 7/1/15 were revised to include language regarding caseload limits.</p>	
<p><b>Recommendation 2-2:</b> To maximize independence (in both fact and appearance) and to help ensure an equitable distribution of cases among contracted attorneys, public defenders should be rotated between the different courtrooms rather than being assigned to a single courtroom.</p>	<p><b>Not Implemented / Pass</b>            Upon further discussions with Court staff, it was determined that adopting a rotating system would not be in the best interest of all parties; therefore, it was decided that</p>	<b>N/A</b>

**APPENDIX / CAP IMPLEMENTATION STATUS REPORT**

✓ = Implemented      ◆ = In Progress      X = Not Implemented

<b>2014 Recommendations</b>	<b>Implementation Status</b>	
<p><b>Management Response 2-2:</b> The distribution of cases is determined by the Mesa City Court staff. The PDCA will recommend and request that Court staff rotate the courtroom assignment for each regular public defender on a yearly basis.</p>	<p>this change would not be implemented.</p>	
<b>CAP#3: Inaccurate/Incomplete Monthly Reports and Invoices</b>		
<p><b>Recommendation 3-1:</b> Public defenders should be required to submit accurate and complete monthly reports as required by their respective contracts.</p> <p><b>Management Response 3-1:</b> The PDCA will ensure all relevant information is collected on a monthly basis.</p>	<p><b>Implemented</b>            Complete reports have been regularly submitted to the PDCA by almost all of the contracted attorneys.</p>	<p>✓</p>
<p><b>Recommendation 3-2:</b> The reporting requirements for each type of contract should be reviewed and revised to ensure only relevant information is collected.</p> <p><b>Management Response 3-2:</b> The PDCA will determine what information is relevant and will revise the public defender contract language to collect only the necessary information.</p>	<p><b>Not Implemented</b>            Neither the contract language nor the reporting form was revised. In our opinion, the PDCA should revise the form to include only pertinent information.</p>	<p>X</p>
<p><b>Recommendation 3-3:</b> Invoice data should be reconciled with updated court records at the close of each year, to capture any changes entered after the monthly reports were produced and to identify and correct any differences which may have been overlooked during monthly processing.</p> <p><b>Management Response 3-3:</b> Annually (at the end of the yearly public defender contract) the PDCA will ask the Court to generate a report of all the activity for each public defender over the past year. The PDCA will reconcile their monthly reports using this information.</p>	<p><b>Not Implemented</b>            An annual reconciliation was not done for FY 2015. This reconciliation would be an efficient way to quickly verify that the City paid for the correct number of cases during the year, by identifying errors that may result from manual adjustments to monthly totals.</p>	<p>X</p>

## **FOLLOW-UP REVIEW**

**CITY AUDITOR**

<b>Report Date:</b>	<b>February 24, 2016</b>
<b>Department:</b>	<b>Parks, Recreation and Community Facilities (PRCF)</b>
<b>Subject:</b>	<b>Aquatics Revenue and Administration Follow-Up Review</b>
<b>Lead Auditor:</b>	<b>Dawn von Epp, Sr. Internal Auditor</b>

### **OBJECTIVE**

The objective of this review was to determine whether the Parks, Recreation and Community Facilities (PRCF) Department has effectively implemented the action plans presented in their responses to our March 2015 audit of Aquatics Program Revenue and Administration.

### **SCOPE & METHODOLOGY**

To accomplish our objectives, we reviewed applicable citywide and departmental policies and procedures; interviewed staff; conducted unscheduled site visits; observed administrative activities; reviewed reconciliations, logs, and other documents; and analyzed Aquatics Program revenue and sales data from the 2015 Aquatics season.

### **BACKGROUND**

On March 10, 2015, we issued a report on our audit of Aquatics Program Revenue and Administration. The objectives of that audit were to determine whether internal controls were in place and operating effectively to ensure Aquatics Program revenues are safeguarded from loss and to evaluate administrative processes associated with the program to ensure adequate controls are in place.

The audit report included three recommendations, which can be summarized as follows:

1. The reconciliation process should be modified to include a comparison of ending inventories, tracking logs, and recorded sales transactions.
2. Written procedures should be created or updated to provide clear guidance at a level of detail necessary to ensure critical tasks are completed correctly, consistently, and in accordance with management's expectations.
3. Management should take steps to ensure that program oversight is adequate to identify and correct non-compliance with departmental or City policies and procedures.

The department agreed and responded with corrective action plans for each recommendation.

## **CONCLUSION**

Over the past year, PRCF has made some improvements to reduce the risks associated with Aquatics Program revenue and related administrative activities. Several departmental policies and procedures have been expanded and improved to provide better guidance to staff members, and there has also been notable improvement in management oversight. However, there are still some areas in which written procedures do not provide sufficient guidance. In addition, a reconciliation process for season passes and punch tickets was not effectively implemented; therefore, a better process will be needed if these passes/tickets are to be used in the future. A complete list of the original corrective action plans, along with our findings regarding their implementation status, is presented in the attached Appendix.

**APPENDIX / CAP IMPLEMENTATION STATUS REPORT**

 = Implemented       = In Progress       = Not Implemented

**2015 Recommendations & Responses      Implementation Status**

**CAP#1: Season pass/punch ticket reconciliation process needs improvement.**

<p><b>Recommendation 1-1:</b> When performing the end of season reconciliation of season pass and punch ticket inventories, PRCF should include a comparison to recorded sales transactions.</p> <p><b>Management Response:</b> Ongoing throughout the season and as part of the end-of-season reconciliation process, PRCF Staff will reconcile season passes and punch ticket inventories to manual inventory logs and to recorded sales transactions in the ActiveNet reservation and registration system. This process will be included in the written procedures documentation.</p>	<p><b>Not Implemented</b></p> <p>During the 2015 Aquatics season, inventories at some pools were periodically reconciled to manual logs, but not to recorded sales (as recommended). An attempt was made to reconcile to recorded sales after the season ended, but the method used to do so was not effective. Additionally, the reconciliation process was not added to the written procedures as indicated in the response.</p> <p>It is our understanding that, starting with the 2016 Aquatics season, the traditional paper punch tickets and season passes will be replaced with electronic media. If these devices can only be activated through a corresponding sales transaction, the risks associated with cash equivalents, and thus the need for this particular reconciliation, would be eliminated. However, if this change does not occur, we would strongly recommend that the original recommendation be implemented.</p>	<p><b>X</b></p>
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**CAP#2: Written procedures for key activities need to be updated or created.**

<p><b>Recommendation 2-1:</b> PRCF should update the PRCF Refund Policy, Aquatics Cash Handling Procedures, and PRCF Deposit Procedures to be consistent with current processes and systems.</p> <p><b>Management Response:</b> With the implementation of the new ActiveNet reservation and registration system PRCF is currently updating PRCF Guideline 2.4 - Refund Policy, Aquatics Cash Handling Procedures, and the PRCF Deposit Procedures to be consistent</p>	<p><b>In Progress</b></p> <p>PRCF procedures have been updated to be more consistent with many of the current processes and systems. However, the revised procedures do not address a few key processes, such as voiding erroneous transactions and appropriately handling cash overages/shortages. As a result, these situations were not always handled consistently and appropriately. Some of these processes were adequately addressed in the previous version of the document, but were omitted in the revision. This is not uncommon</p>	<p></p>
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**APPENDIX / CAP IMPLEMENTATION STATUS REPORT**

 = Implemented       = In Progress       = Not Implemented

<b>2015 Recommendations &amp; Responses</b>		<b>Implementation Status</b>	
with current processes and the new software system.		when new systems drive changes to operational procedures and internal controls.	
<p><b>Recommendation 2-2:</b> PRCF should create written procedures for transporting pool deposits, transferring aquatics start-up funds/season passes/punch tickets to pool managers, performing end of season reconciliations, and for internal control activities conducted by PRCF Finance personnel, such as validating the chain of custody of deposits and reconciling deposits to Advantage records.</p> <p><b>Management Response:</b> With the completion of a full season of Aquatics utilizing the ActiveNet registration and reservation software. PRCF Staff is currently creating written procedures for transferring, transporting, reconciling, and safeguarding of all pool funds, passes, logs and tickets. The processes and procedures will include the validation and reconciliation of all such items by PRCF Finance personnel including the chain of custody and reconciliation of deposits to Advantage records.</p>		<p><b>In Progress</b></p> <p>PRCF has created new procedures for some previously undocumented processes and systems. However, there are still some key processes, including those associated with financial oversight, which are not adequately documented. As a result there is an increased risk that errors or fraud could occur and not be detected in a timely manner.</p>	
<b>CAP#3: Additional management oversight is needed to identify non-compliance.</b>			
<p><b>Recommendation 3-1:</b> Management should ensure sufficient oversight activities are being conducted to identify and correct non-compliance with departmental or City policies and procedures. Additional oversight is needed in the areas of voided/discounted transactions, chain of custody of cash/cash equivalents, and training requirements for cash handling/credit card handling.</p>		<p><b>Implemented</b></p>	

**APPENDIX / CAP IMPLEMENTATION STATUS REPORT**

✓ = Implemented      ◆ = In Progress      X = Not Implemented

<b>2015 Recommendations &amp; Responses</b>	<b>Implementation Status</b>	
<p><b>Management Response:</b> PRCF Management will ensure oversight activities are regularly conducted to identify and correct non-compliance issues. Written procedures and documentation of the oversight activities will be kept. Logs, documentation and signed rosters will be kept and regularly checked by PRCF Finance to ensure compliance with City and PRCF policies and procedures; especially MP210-Cash Handling and MP 212-Credit Card Handling. PRCF Staff will continue to work with City Accounting to ensure that cash handling and credit card training is available. This will be an ongoing and continuous procedure.</p>		

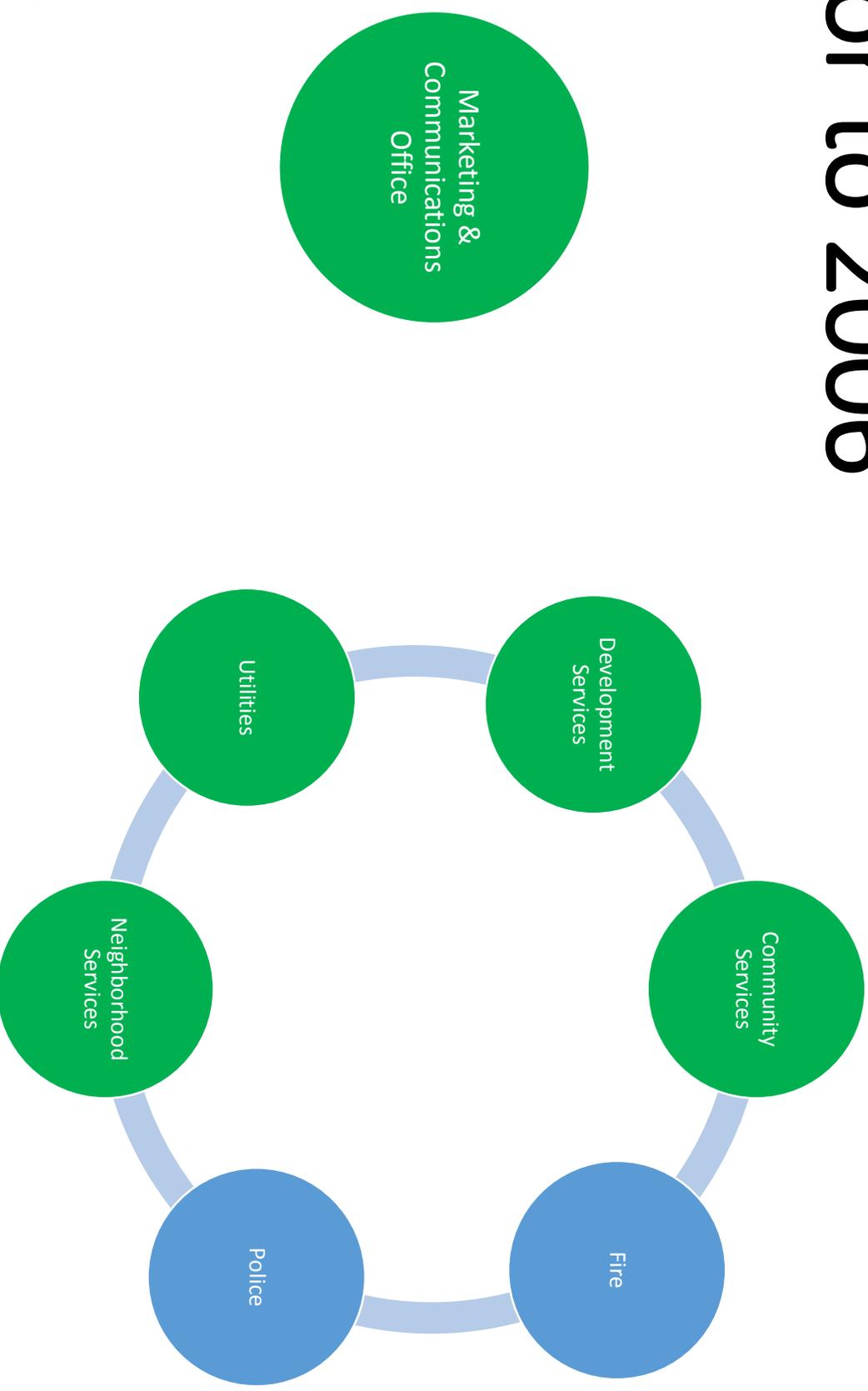
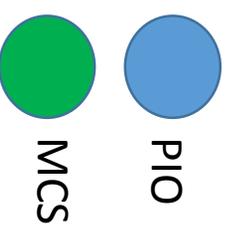
# Public Information & Communications Function Overview

Prior to 2006 to present

## Marketing & Communications Positions prior to 2006

- 27.5 Marketing and Communications Specialists (MCS) positions citywide
- 4 MCS Positions in Marketing & Communications Office
- 3 additional Public Information Officer (PIO) positions in Police (2) and Fire (1)
- Largely decentralized

# Prior to 2006



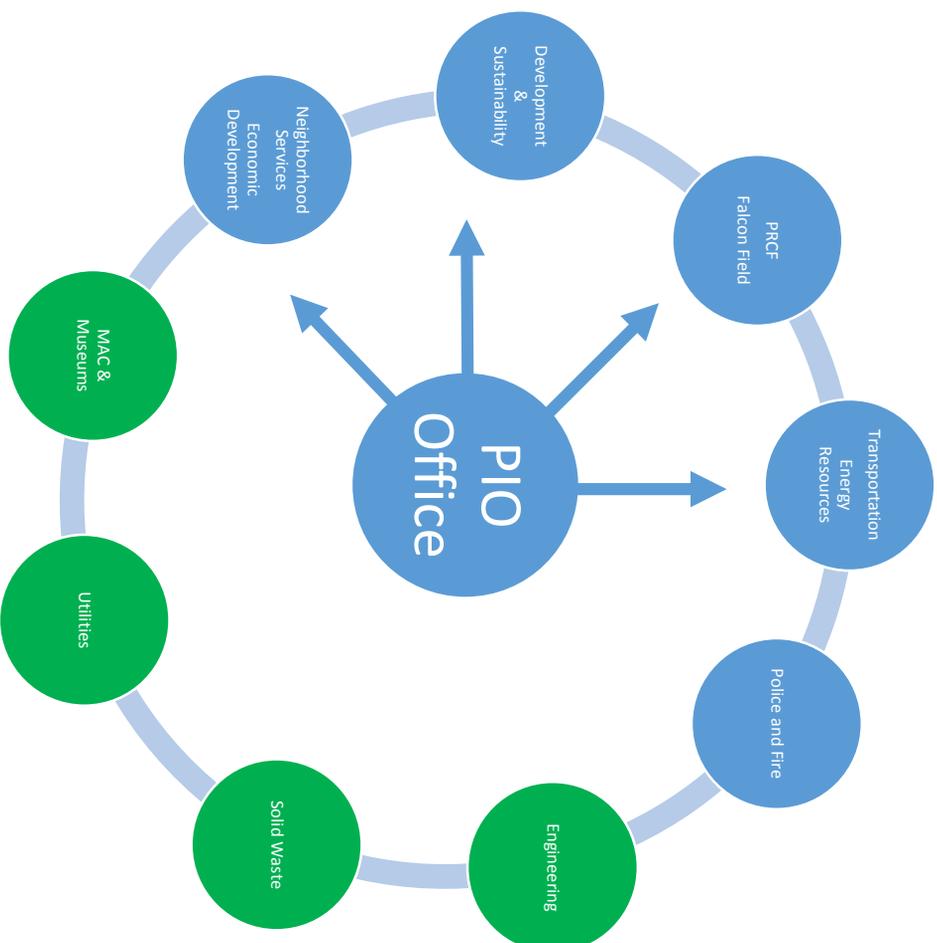
# Public Information vs Marketing Positions 2006-2008

- 7 MCS positions reclassified as Public Information & Communications positions or PIO positions all working within the renamed Public Information & Communications Office (PICO)
- 26.5 combined non-sworn PIO/Marketing positions citywide
- 3 PIO sworn positions in Police and Fire
- More centralized public information and communications functions
- Specialized marketing functions in MAC, Engineering, Solid Waste, Museums, Convention Center

## PIO vs MCS Positions

- Public Information & Communications Specialists (PIOs) focus on broad messaging, outreach, communications and promotion of City issues, events, programs and Mayor/Council policy
  - Examples: Mayor and Council PIOs, Office of Public Information & Communications staff, PD & Fire/Medical
- Marketing & Communications Specialists (MCS) focus on specific departmental products, services or commodities
  - Examples: MAC and Museums marketing staff promoting shows, exhibits, facilities; Engineering marketing staff focusing on outreach and education related to construction projects; and Environmental & Sustainability promoting Mesa Recycles and commercial solid waste services

# 2006 to 2008



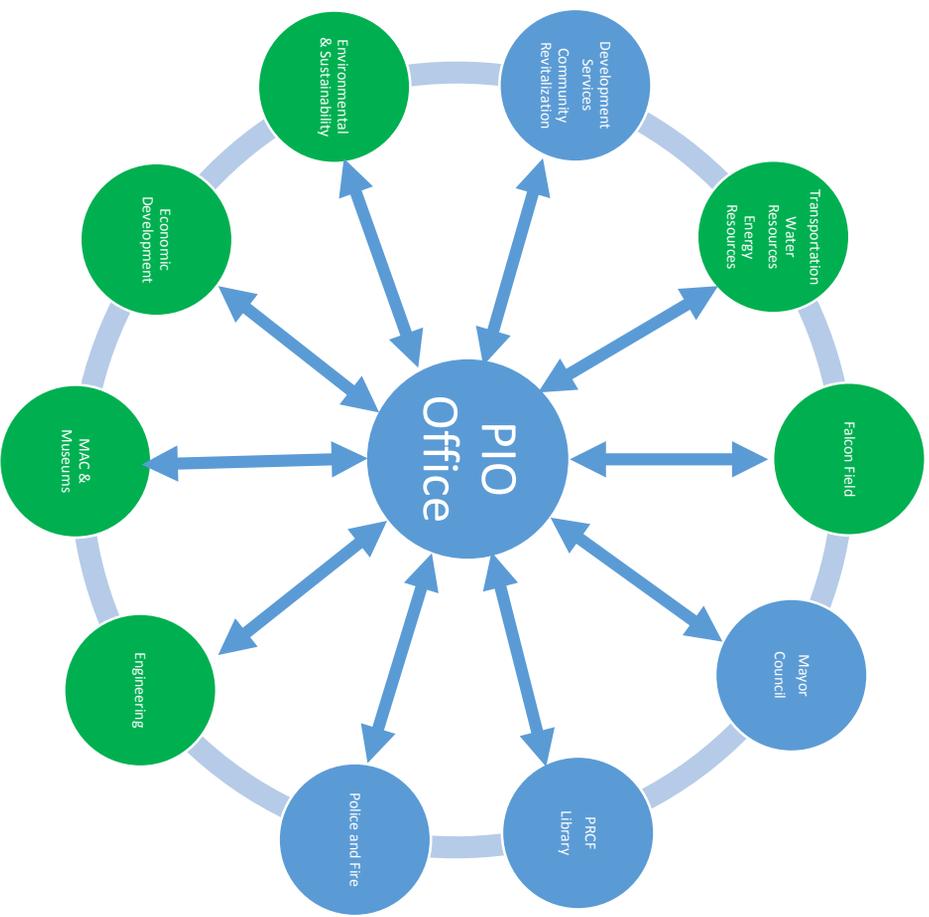
PIO

MCS

# PIO and Marketing Positions 2009-present

- 20.5 non-sworn PIO/Marketing positions citywide
- 4.5 PIO Positions in PICCO
- 2 PIO positions for Mayor (1) and Council (1)
- 3 sworn PIO positions in Police and Fire
- Decentralized with high degree of coordination
- Specialized marketing functions in MAC, Engineering, Environmental & Sustainability, Museums, Convention Center

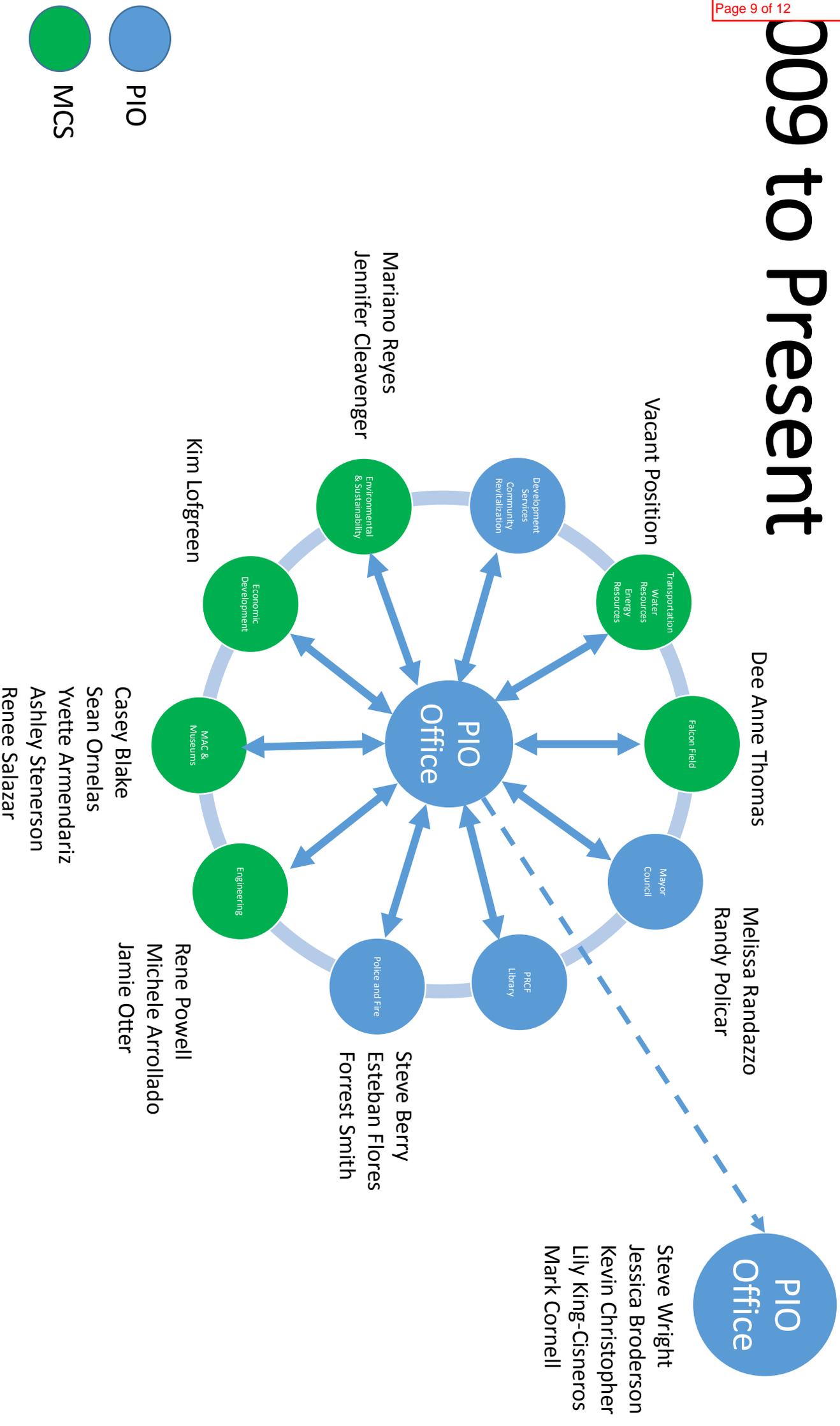
# 2009 to Present



PIO

MCS

# 009 to Present



# PIO and Marketing Coordination

- Media contact email list
- Weekly traditional media coordination meetings
- Weekly social media coordination/discussions
- Periodic training on various communications and marketing topics
- Weekly media briefing summary document
  - Media Contacts
  - Media Pitches
  - Priority Topics/Issues
  - Special Events
  - Article/Ad Opportunities
- SharePoint site for dissemination and sharing of information

# Departments Represented in Coordination Weekly Meeting

- Public Information & Communications
- Mayor
- Council
- AZ Museum of Natural History
- Development Services
- Economic Development
- Energy Resources
- Engineering
- Environmental & Sustainability
- Falcon Field
- Fire & Medical
- Housing, Community Development & Human Services
- i.d.e.a. Museum
- Library
- Mesa Arts Center
- Parks, Recreation & Community Facilities
- Police
- Transit Services
- Transportation
- Water Resources

# Additional Strategies for FY 16-17

- Updated Strategic Communications Plan
- Updated Social Media Policy
- Social Media Guidelines
- Continue to develop Social Media Command Center
- Develop Mesa News App per City Manager request

Mesa  
 8 Authorized General Obligation Bond Debt and Payment Sources  
 Date: 2/3/16  
 Prepared by the Office of Management and Budget

Current Pre-2008 Authorized Debt Service

	Principal	Interest	Total
15/16	10,165,000	5,654,833	15,819,833
16/17	10,640,000	5,361,404	16,001,404
17/18	34,295,000	4,868,156	39,163,156
18/19	5,465,000	3,196,244	8,661,244
19/20	5,665,000	3,014,556	8,679,556
20/21	5,925,000	2,778,256	8,703,256
21/22	6,175,000	2,526,056	8,701,056
22/23	6,455,000	2,256,806	8,711,806
23/24	6,725,000	1,985,606	8,710,606
24/25	7,025,000	1,702,406	8,727,406
25/26	7,350,000	1,392,931	8,742,931
26/27	7,675,000	1,075,431	8,750,431
27/28	8,000,000	750,681	8,750,681
28/29	8,375,000	387,344	8,762,344
29/30	-	-	-
<b>Total</b>	<b>129,935,000</b>	<b>36,950,712</b>	<b>166,885,712</b>

Anticipated Refundings

2016 Tax-Exempt Refunding	2016 Taxable Refunding	Total Pre-2008 Debt After 2016 Refundings
(279,075)	2,062,156	17,602,914
(145,050)	1,852,392	17,708,746
(145,850)	(23,443,908)	15,573,398
(146,650)	3,162,842	11,677,436
(147,450)	2,001,837	10,533,943
(148,250)	1,854,009	10,409,015
(146,325)	1,791,509	10,346,240
(146,025)	1,615,949	10,181,730
(146,675)	1,593,292	10,157,223
(150,075)	1,298,636	9,875,967
(145,175)	3,925,564	12,523,320
(147,275)	3,790,728	12,393,884
-	2,701,120	11,451,801
-	1,401,840	10,164,184
-	-	-
<b>(1,893,875)</b>	<b>5,607,966</b>	<b>170,599,803</b>

Anticipated Payment Sources

Build America Bonds Reimbursement	Court Construction Fee Revenue	Impact Fee Revenue	Property Tax Levy - To Free Up Capacity for Fire Stations 219 & 220 O&M	Property Tax Levy - Balance FY13/14 budget	Property Tax Levy - Authorized in 2012 & 2013 but Not Yet Issued - Temporary Capacity*	Savings from Interest Rate/Delinquency Assumptions**	Total Resources
90,837	861,920	2,854,630	2,569,614	2,376,150	8,849,763	-	17,602,914
90,959	879,159	2,834,621	2,569,614	2,376,150	7,917,135	1,041,108	17,708,746
90,959	896,742	4,036,358	2,569,614	2,376,150	4,293,380	1,310,196	15,573,398
90,959	914,677	3,173,793	2,569,614	2,376,150	1,601,642	950,601	11,677,436
90,959	932,970	3,502,866	2,569,614	2,376,150	-	1,061,384	10,533,943
88,147	951,630	3,412,790	2,569,614	2,376,150	-	1,010,685	10,409,015
84,894	970,662	3,408,316	2,569,614	2,376,150	-	936,604	10,346,240
81,243	990,076	3,359,128	2,569,614	2,376,150	-	805,520	10,181,730
77,140	1,009,877	3,377,541	2,569,614	2,376,150	-	746,901	10,157,223
72,426	1,030,075	3,222,098	2,569,614	2,376,150	-	605,605	9,875,968
67,216	1,050,676	5,901,995	2,569,614	2,376,150	-	557,670	12,523,321
61,395	1,071,690	5,885,423	2,569,614	2,376,150	-	429,613	12,393,884
54,962	1,093,123	5,006,392	2,569,614	2,376,150	-	351,560	11,451,802
47,801	1,114,986	3,821,910	2,569,614	2,376,150	-	233,723	10,164,184
-	-	-	-	-	-	-	-
<b>1,089,897</b>	<b>13,768,263</b>	<b>53,797,861</b>	<b>35,974,592</b>	<b>33,266,100</b>	<b>22,661,919</b>	<b>10,041,170</b>	<b>170,599,802</b>

\*Temporary Capacity - When the city instituted a secondary property tax in FY09/10, a conscious decision was made to stabilize the impact to residents by setting the levy at the amount needed to pay the estimated debt service when all authorized bonds were sold. The city sells bonds annually as needed in order to minimize interest costs. This phased sales approach results in temporary levy capacity. All secondary property tax is restricted for use solely for the purpose of repaying bond debt. First priority for the temporary capacity is given to existing debt. This reduces the dependency on a general fund transfer. Second priority is given to the sale of new bond debt by structuring additional principal payments in the first year. This saves the city interest costs over the life of the repayment period. The current temporary capacity is due to phased sales of bonds authorized in 2012 and 2013.

\*\*Savings - The secondary property tax levy is set based on standard financial assumptions. A 5% average interest rate is assumed for future bond sales. Rate experience below 5% creates expense savings. The secondary property tax levy includes a collection rate assumption of 95% (5% delinquency factor). Collection rates higher than 95% result in additional funds available. These types of items affect the resources available for the repayment of debt or to pay for additional principal on new bond sales.