AUDIT, FINANCE & ENTERPRISE COMMITTEE

March 4, 2019

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 4, 2019, at 4:00 p.m.

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

1.   Items from citizens present.

There were no items from citizens present.

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

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

1.   Procurement Card Program

Ms. Ruttman stated that the City has 500 procurement card holders and in Fiscal Year (FY) 2018 the City had 30,000 transactions. She noted that the City receives rebates from vendors that accept the procurement cards. (See Page 4 of Attachment 1)

Ms. Ruttman explained that the audit review included verifying internal controls and analyzing supervisor review on transactions in order to be compliant with City policies. She added interviews were completed with most of the approvers of the most frequently used procurement cards. (See Pages 5 and 6 of Attachment 1)

Ms. Ruttman pointed out that the review identified a lack of supervisor review prior to the procurement card purchase approval which means that approvers were approving transactions without prior verification from the supervisor to determine if the purchase was appropriate. She added that in some cases receipts were not provided for supervisor review. She reported on "accidental" purchases where the person uses the incorrect credit card and the reimbursement or the credit back to the card was not verified on transactions. (See Page 6 of Attachment 1)

In response to a question posed by Committeemember Luna, Ms. Ruttman replied that the cardholder should always keep the original receipt and scan and upload the receipt to the Accounts Payable Sharepoint site or for online purchases upload the electronic receipt.

In response to a question from Chairperson Duff, Ms. Ruttman responded that receipts are required for all purchases.

Ms. Ruttman reviewed the recommendations and explained that the review and approval of the transactions can be completed by separate staff members. She recommended that additional training be provided to approvers. She suggested that Management Policy (MP) 211 be updated to include the approver training requirement. She stressed the importance of providing receipts on every purchase even if the purchase may be credited or reimbursed. (See Pages 7 and 8 of Attachment 1)

In response to a question posed by Committeemember Freeman, Ms. Ruttman reported that the Department Head is responsible for ensuring that all rules and requirements are followed by their employees and stated that the Purchasing Department provides training on the procurement cards.

Ms. Ruttman concluded by saying that management has agreed with the recommendations and will be implementing the changes by December 31, 2019. (See Page 9 of Attachment 1)

In response to questions from Committeemember Luna regarding the implementation of the procurement card approval process, Ms. Ruttman responded that the Purchasing Department provides training to all card holders, and in the future that will include all approvers. She confirmed that during the follow-up review in 12 months, spots checks will be completed to ensure successful implementation.

2.   Payroll (follow-up review)

Ms. Ruttman stated that extra time was given on this follow-up review due to the number of action plans to be met. She pointed out the one action plan not implemented was the recommendation to the City Manager's office to implement policies and procedures to ensure critical staffing overtime shifts are assigned in a fair and equitable manner that meets operation needs and minimizes the risks associated with excessive work hours. She noted that all departments have safety rules, not all have rules dictating how critical overtime is assigned. She added that the City Manager's office was to implement the critical overtime policies and procedures throughout the City which was not completed. She reported that the Fire and Medical Department have a structured critical overtime shift system, Solid Waste Department has a process that assigns critical overtime shifts, and that the Police Department has no formal policy for critical overtime. (See Pages 11 and 12 of Attachment 1)

In response to a question posed by Committeemember Luna regarding the Police Department critical overtime policy, Assistant City Manager John Pombier reported that he works with the Police Department daily on complaints and concerns that require attention. He added that over the last eight years he has not received a complaint from any officer that they are not receiving critical overtime shifts, however, receives complaints on not having enough officers to cover shifts. He pointed out that the department has limits on the amount of time an officer can work

in a 24-hour period for safety reasons, which is 16 hours per day. He stated that the implementation of this policy is not a priority at this time.

In response to a question from Committeemember Freeman relating to a leave pool for critical overtime staffing similar to what the Fire and Medical Department uses, Mr. Pombier reported that he has approached the Police Chief and he agrees it would be economical, however, the department is not aware of other Police Departments that use a leave pool. He commented that the difference between the two departments is that the Fire and Medical Department have an abundance of responders and the Police Department is looking for officers.

Committeemember Freeman requested a cost savings analysis comparing the minimum staffing overtime versus over hires. He added that Fire and Medical have been using the program for staffing for a long time and it works.

Mr. Pombier reported that the City Managers office will look into how the leave pool would work within the Police Department and provide the Committee with an analysis on the Department's costs on critical overtime staffing.

In response to a question posed by Committeemember Luna, Ms. Ruttman responded that the Solid Waste Department has an equitable critical overtime staffing system in place where employees are rotated.

Discussion ensued relative to critical overtime staffing in the Police Department and cost saving analysis.

Ms. Ruttman concluded by saying that no additional follow-up will be conducted for the payroll audit and the analysis is outside of the auditor's parameters.

3.   Housing Rehab (follow-up review)

Ms. Ruttman explained that there were two recommendations, one of which was not implemented that had to do with change orders and documenting the approval. She stated that a few of the change orders were not done according to the rules, however they reduced the number of change orders thereby reducing the risk. (See Page 14 of Attachment 1)

In response to a question posed by Committeemember Luna, Ms. Ruttman explained as homes are rehabbed there are various projects completed with a quick turnaround and at times not all the paperwork is done in accordance with the rules.

In response to a question from Chairperson Duff, Housing and Community Development Director Liz Morales responded that change orders are agreed upon by the contractor and staff with expenses charged through grant funding.

Ms. Morales pointed out that out of the 63 projects completed, three change orders were missing signatures due to either a changeover in staff or the unavailability of the homeowner.

In response to questions posed by Chairperson Duff, Ms. Morales stated that the homeowner can select from a list of contractors. She noted that the homeowner agrees to the original scope of work and any additional work is a change order.

4.   Police Off-Duty (status update)

Ms. Ruttman explained that the off-duty employment program first follow-up review in 2016 showed little improvement and the second follow-up was delayed due to changes in software, services, and leadership. She added that the department is currently looking at outsourcing the software. She noted that the employee overseeing the administrative protocols has demonstrated how employees can be held accountable and files documented. She stated that they are working together to stay in compliance until the administrative work is assumed by the contractor. She clarified that staff will return in the Spring with the FY 2020 audit plan for Committee direction. (See Pages 16 through 18 of Attachment 1)

In response to a question posed by Committeemember Freeman, Ms. Ruttman confirmed that the off-duty program is currently managed internally.

Assistant City Manager John Pombier stated that staff will return to the Committee once the program has been implemented with a request for an off-duty pay increase since off-duty officers are currently being paid at a lower rate compared to surrounding municipalities.

Discussion ensued relating to fees and payment from either the contractor or City.

Chairperson Duff thanked Ms. Ruttman for the presentation.

2-b.   Hear a presentation, discuss, and provide a recommendation on the proposed fees and charges for the following City departments: Animal Control, Business Services, Engineering, Falcon Field, and Transportation.

Senior Budget Analyst Marcus Steele introduced Budget Coordinator Robert Baer who displayed a PowerPoint presentation. **(See Attachment 2)** He commented that the five departments proposing fees to begin July 1, 2019:

- Animal Control
- Business Services
- Engineering
- Falcon Field
- Transportation

Mr. Steele stated that Council will consider the Parks, Recreation and Community Facilities Department fees at the March 18, 2019 meeting with implementation on April 1, 2019. (See Page 3 of Attachment 2)

In response to a question posed by Councilmember Luna, Mr. Steele reported that the Parks, Recreation and Community Facilities Department season begins in spring and fees must be implemented prior to the start of the season.

Mr. Steele pointed out that the Animal Control Division fee schedule will be included in the Police Department fee schedule.

Mr. Steele commented that Business Services is modifying the name of the tax license fee from Kiosks-Second Hand Merchandise to Automated Kiosks-Electronic Devices.

Mr. Steele highlighted the various Engineering administrative changes such as the removal of the Community Facility District (CFD) Administrative fee. (See Page 6 of Attachment 2).

In response to a question posed by Committeemember Freeman, City Engineer Beth Huning reported that at the time CFD's were set up a number of fees had been created since staff was unsure of how they would be utilized. She added that once the business practices were in place the department discovered fees were being collected from the administration side and from the CFD side, which was essentially "double dipping."

Mr. Steele commented that the Engineering Department is requesting that the fee collected per materials test will change to collecting the fee per right-of-way application, which has an annual fiscal impact of $86,000. (See Page 7 of Attachment 2)

In response to questions from Committeemember Freeman, Ms. Huning responded that the City first implemented the per materials fee for the materials testing lab in FY 2018. She added that staff's time on Capital Improvement Projects is charged directly to the project in the payroll system in order to collect and off-set fees. She pointed out that the City of Phoenix has a similar sized lab and collects a fee of $240, and the City of Mesa is requesting a $200 fee. She stated the per right-of-way application has minimal administrative tracking.

Mr. Steele commented that Falcon Field is requesting an increase in the large executive hangars deposit and monthly fee. (See Page 8 of Attachment 2)

In response to a question posed by Committeemember Luna, Airport Director Corinne Nystrom confirmed that the City has three large executive hangers out of 407 hangers. She noted that the fee request provided is closer to market price.

Mr. Steele stated that the Transportation fee increase request is to the per quadrant for arterial-to-arterial intersections and the per quadrant "T" intersections. (See Page 9 of Attachment 2)

In response to questions from Committeemember Luna, Transportation Director RJ Zeder explained the fees have not been changed since 2008 and stated the opinion that the request is not unreasonable due to cost increases over the years. He clarified that developers pay the cost of the signal construction.

Committeemember Freeman requested staff implement a biannual review on fees.

It was moved by Committeemember Freeman, seconded by Committeemember Luna, to recommend to the Council that the proposed fees and charges for the following City Departments: Parks, Recreation and Community Facilities, Animal Control, Business Services, Engineering, Falcon Field, and Transportation be approved as recommended by staff.

Upon tabulation of votes, it showed:

AYES – Duff-Freeman-Luna
NAYS – None

<u>Carried unanimously</u>.

Chairperson Duff thanked staff for the presentation.

3.   Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 5:00 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 March, 2019. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

js
(Attachments – 2)

City Auditor

Presentation to the Audit, Finance, and Enterprise Committee

March 4, 2019

Jennifer Ruttman, City Auditor

Audits Completed Jan-Mar 2019

Citywide Procurement Card Program

Follow-up Review – Payroll and Timekeeping

Follow-up Review – Housing Rehabilitation Program

Police Off Duty Employment Program Update

Procurement Card Program

Report Date: 02/20/2019

An audit of internal controls and compliance.

Procurement Card Program

How do we use P-Cards?

- To efficiently purchase goods and services (supplies, travel, training, fuel, etc.)

- Pay certain contracted vendors' regular monthly invoices

- ≈30,000 transactions and $13.6M in expenditures during FY 2018

Procurement Card Program

What did we audit and why?

- Verified that strong internal controls are in place to prevent/detect errors, fraud, waste, and/or abuse

- Reviewed p-card purchases, documentation, workflow, review, and approval

- Analyzed transactions to identify trends and risk indicators

- Tested transactions for compliance with program rules

Procurement Card Program

What did we find?

- Lack of supervisory review prior to approval
- Receipts not provided for all purchases
- "Accidental" purchases
- No controls to track credits or reimbursements

Procurement Card Program

What did we recommend?

Review and Approval

- Departments should require and ensure transactions are reviewed for appropriateness and compliance

- Approvers should have knowledge and authority necessary to evaluate and authorize

- Purchasing should establish approver eligibility requirements and provide training

- Update MP 211 to include approver eligibility and training requirements

Procurement Card Program

What did we recommend?

Documentation

- Enforce existing rules requiring a receipt for every purchase even if expected to be credited or reimbursed

- Track expected credits to ensure received

- "Accidental Purchases"

  - Reimburse City if not credited in billing cycle

  - Include initial receipt and repayment receipt in documentation

Procurement Card Program

Management's Response

- Management has agreed with the recommendations and will be implementing the changes by 12/31/2019.

- We will remain engaged and in communication with all parties throughout the process, to help ensure the changes are successfully implemented.

- We will perform a follow-up review in 12 months.

Payroll and Timekeeping

Report Date: 02/21/2019

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

Payroll and Timekeeping Follow-up Review

Action Plans
In November
2016 Audit
Report

Payroll Action Plans:

✓ Update and document payroll processes

✓ Payroll documentation stored and organized in a single location

✓ Improve and automate processes to be more efficient

✓ Implement proper approvals and segregation of duties for the off cycle payroll process

✓ Identify and appropriately invoice employees on leave for insurance premiums

✓ Update City Personnel Rules regarding insurance premiums payable by employees on leave

✓ Implemented
X Not Implemented

Payroll and Timekeeping Follow-up Review

Action Plans
In November
2016 Audit
Report

Timekeeping Action Plans:

✔ Monitor part-time non-benefitted employees and ensure those that meet the 20/20 criteria are enrolled in ASRS

✔ Finalize and issue Management Policy 400, Timekeeping and Leave Administration

✔ Develop controls to reduce the need for historical edits of timekeeping records

Critical Staffing Overtime Action Plan:

✗ Implement policies and procedures to ensure critical staffing overtime shifts are assigned in a fair and equitable manner that meets operational needs and minimizes the risks associated with excessive work hours.

✔ Implemented
✗ Not Implemented

Housing Rehabilitation Program

Report Date: February 21, 2019

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

Housing Rehabilitation Program 2nd Follow-up Review

Action Plans in Audit and Follow-up Reports

Housing Services Action Plans:

✔ Ensure exceptions to program requirements are documented in the project files.

✘ Ensure all change orders are properly approved prior to work being completed.

✔ Implemented
✘ Not Implemented

Police Off Duty Employment Program

An update on the progress of our 2nd follow-up review.

Off Duty Program – 2nd Follow-up Status Update

Background

- Routine audit in 2015 – Issues with program administration and compliance.
- First follow-up review in 2016 showed little improvement.
- Recommendations included:

1. Implement/improve internal controls to ensure:
   - Officers not scheduled and/or paid for more than one job at a time
   - Off Duty employers billed accurately
   - All hours worked (both on and off duty) accurately recorded
   - Officers do not exceed the maximum combined number of work hours
   - Officers do not work Off Duty jobs while On Call/other prohibited times
   - Required forms are completed correctly and retained

2. Implement/enforce accountability protocols for officers and supervisors

3. Update Temporary Employment Agreement; improve insurance documentation

Off Duty Program – 2nd Follow-up Status Update

Background

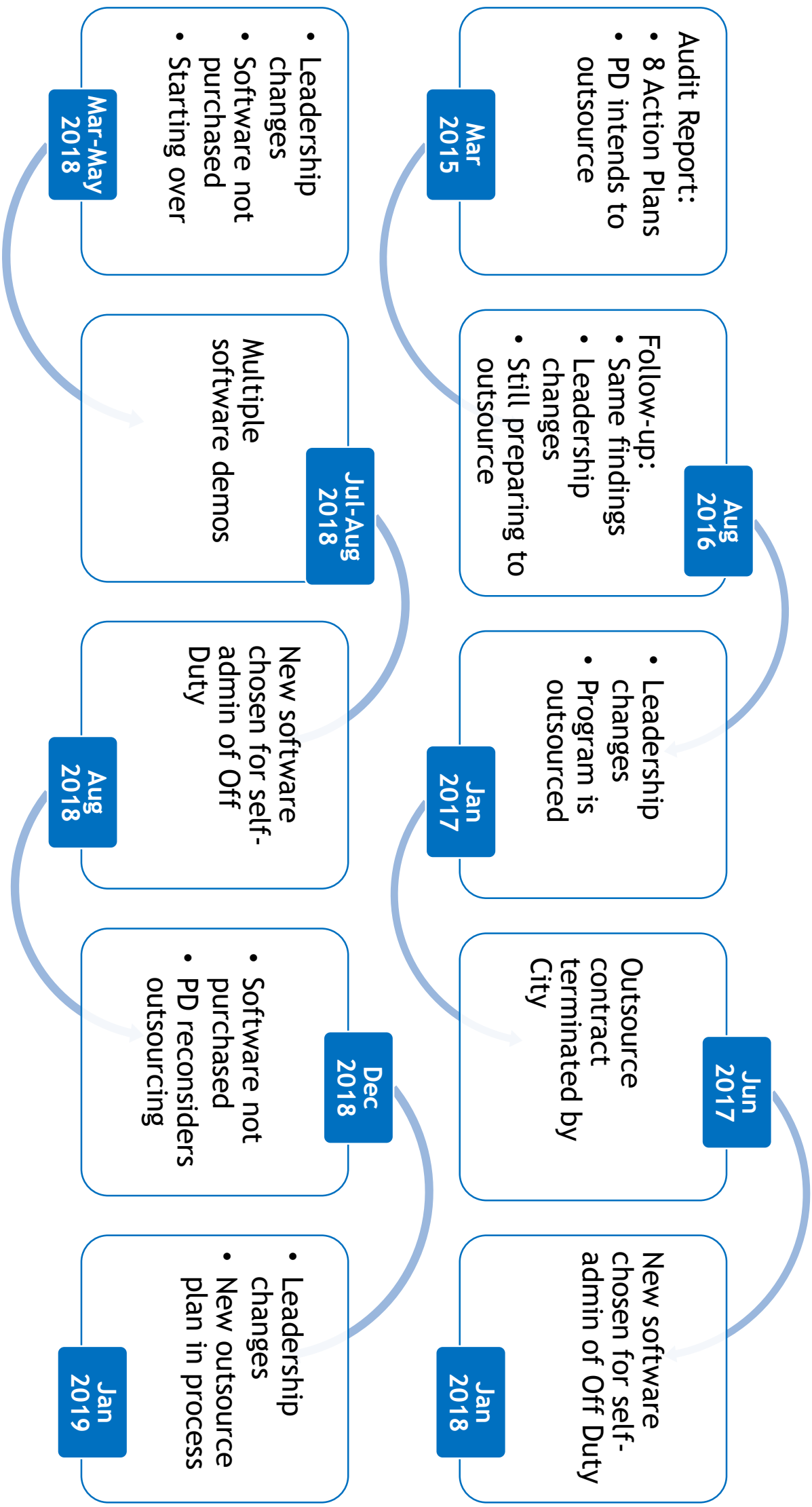Second follow-up review has been repeatedly postponed, due to:

- Multiple changes in program leadership
- Program management constantly in flux
- Various attempts to purchase software and/or services
- First outsourcing attempt was unsuccessful

Off Duty Program – 2nd Follow-up Status Update

Current Status

- Managed in-house by new program staff, using old software.

- Current effort to outsource has included more comprehensive due diligence than previous attempts.

- Compliance with administrative protocols has improved, due to increased oversight.

- No current data on compliance with operational protocols.

- Further use of audit resources is TBD – we will seek direction with the FY 2020 Audit Plan.

Off Duty Program Management - Summary Timeline

Mar 2015
Audit Report:
- 8 Action Plans
- PD intends to outsource

Aug 2016
Follow-up:
- Same findings
- Leadership changes
- Still preparing to outsource

Jan 2017
- Leadership changes
- Program is outsourced

Jun 2017
Outsource contract terminated by City

Jan 2018
New software chosen for self-admin of Off Duty

Mar-May 2018
- Leadership changes
- Software not purchased
- Starting over

Jul-Aug 2018
Multiple software demos

Aug 2018
New software chosen for self-admin of Off Duty

Dec 2018
- Software not purchased
- PD reconsiders outsourcing

Jan 2019
- Leadership changes
- New outsource plan in process

Questions?

City of Mesa

Fees and Charges Recommendations

Fiscal Year 2019/20

Audit, Finance and Enterprise Committee

Marcus Steele, Sr. Budget Analyst

March 4, 2019

mesa·az

Departments Proposing Changes

Animal Control

Falcon Field

Business Services

Transportation

Engineering

Parks, Recreation & Community Facilities Department Fees

Fees Reviewed on January 9th by Parks and Recreation Advisory Board and recommended for Council approval

Staff met with Audit, Finance, and Enterprise Committee Chair on February 27th. Fees recommended to be forwarded to full Council for consideration.

Council will consider Parks, Recreation & Community Facilities fees on March 18th for fee implementation on April 1st.

Animal Control

Adding Animal Control Division to Police Department Fee Schedule

- Police Department fee schedule will now include the Animal Control Division
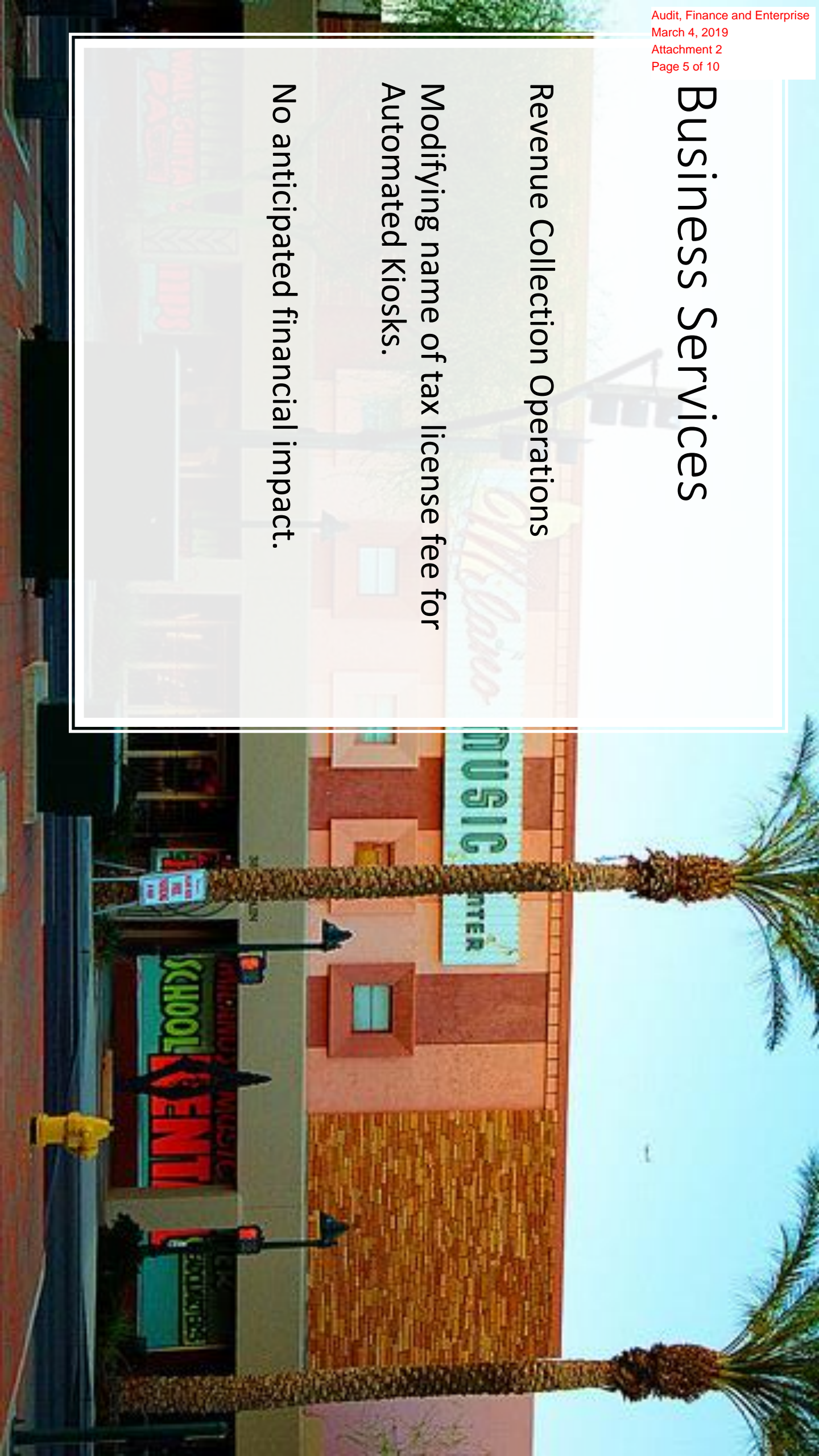
No anticipated financial impact.

Business Services

Revenue Collection Operations

Modifying name of tax license fee for Automated Kiosks.

No anticipated financial impact.

Engineering

Various administrative changes:

- Removing Community Facility District Administrative Fee (not utilized).

- Adding hyperlink to City utility rates in water use charges section.

- Separating fire hydrant testing and inspection fees.

No anticipated financial impact for administrative changes.

Engineering

Modifying unit used for Materials Testing Fee collection.

- Fee will be collected per right-of-way application rather than per materials test.

Annual Fiscal Impact: +$86,000

Falcon Field Airport

Increase to Large Executive Hangar fees

- Increasing the monthly fee and deposit fee for Large Executive Hangars.

Annual Fiscal Impact: +$1,980

Transportation

Increase to per-quadrant Traffic Signal In-Lieu Fees for signal construction

- Increasing fee to $87,500 per quadrant for arterial-to-arterial intersections from $50,000

- Increasing fee to $80,000 per quadrant for "T" intersection from $45,000

Annual Fiscal Impact: +$112,500