

FINANCE COMMITTEE MINUTES

August 10, 2006

The Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on August 10, 2006 at 3:33 p.m.

COMMITTEE PRESENT	COUNCIL PRESENT	STAFF PRESENT
Claudia Walters, Chairman Rex Griswold Tom Rawles	None	Christopher Brady Debra Dollar Debbie Spinner

1. Discuss and provide direction on the role and responsibilities of the Council-appointed Auditor.

Chairman Walters stated that she would like to clarify that City Manager Christopher Brady has complete responsibility for the organizational and operational aspects of the City. She added that the Committee's intent relative to the Council-appointed Auditor is to define the role in a manner that ensures that the City Manager maintains the ability to perform his responsibilities. Chairman Walters noted that Interim Auditor Gary Ray was present to provide information regarding the audit function, and she asked Mr. Ray to introduce himself.

Mr. Ray, an 18-year City employee, said that he has served as the Interim Auditor for the past fourteen months and that his prior assignment was Deputy Auditor. He advised that his experience includes the Auditor General's Office, a small helicopter company and the U.S. Navy. Mr. Ray provided a list of audits scheduled for the current fiscal year (see Attachment 1), and he reviewed examples of reports and audits completed in the past year.

In response to a question from Chairman Walters, Mr. Ray stated that "surprise" audits generally address areas involved with cash handling or inventories of materials and supplies. He noted that "surprise" audits are usually based on a sample of the data. Mr. Ray said that two funded audit positions are vacant, and that Mr. Brady recently approved a position for an Information Services Technician Auditor.

Mr. Brady said that he was proposing a merger of the existing Internal Audit function with Quality and Organizational Development (Q&OD). He stated that he did not want to presume the direction of Council regarding the audit function, and he explained that the proposed new function would be available to establish systems and operations, checks and balances, and procedures within the City. Mr. Brady advised that the merged area would assist various divisions and departments to develop procedures within established City policies. He stated that the audit function currently reacts to a problem, which requires follow-ups to provide solutions and to monitor the implementation of new procedures. Mr. Brady noted that the City does not

have uniform policies in several areas, including "cash handling." He suggested that the "merged function" area could develop policies and procedures and that the new Council-appointed Auditor position would be responsible for auditing compliance. Mr. Brady added that plans would include mandatory training for City employees who handle cash to ensure adherence to City policies. He also noted that discussions with staff identified a need to provide employees with a method to report suspected fraud or unethical behavior in an anonymous manner.

Chairman Walters noted that non-profit agencies and private companies are also implementing "ethics officers" or other types of reporting systems.

Mr. Ray advised that a Fraud Examiners professional group recommended a third-party service in Georgia that operates "employee hotlines" and is able to discern legitimate complaints from nuisance complaints. He confirmed that the service could also accept complaints regarding Fire and/or Police operations and complaints from vendors. Mr. Ray explained that each anonymous caller's complaint is assigned a number, which the caller can refer to when calling back to check on action taken in response to his or her concern. He added that City staff could utilize the service to leave a message for the caller regarding the status of a complaint or to request additional information by referring to the complaint number.

In response to a comment from Chairman Walters that performing audits would be more time-consuming than establishing procedures and training, Mr. Brady noted that "front counter" employees who handle cash transactions are typically in lower pay classifications and have a higher turnover rate, which necessitates ongoing training.

Mr. Ray commented that once an "umbrella policy" is established for the City, each department would develop their own procedures and an audit would address compliance with the procedures in place. He noted that audit personnel are unable to effectively perform audits on procedures that they develop.

Mr. Brady advised that a complex organization such as the City of Mesa has many areas that require different types of procedures within an established policy, such as contract management and payments to vendors. He noted that a core area of expertise should exist in the organization in order to ensure that personnel are trained and that proper procedures are developed. Mr. Brady stated the opinion that the audit function should be independent of policy and procedure development in order to be effective. He added that scheduled audits include areas of interest or concern identified by the Council, and he said that the Council could provide input and receive updates on audits performed and the status of corrective action.

Committeemember Rawles noted that an audit report on the Mesa Arts Center's adult program costs indicates significantly different results from the information provided to the City Council, and he stated that the Council requires correct information in order to develop effective public policy.

Mr. Brady stated that an auditor and a division manager may disagree on the certain issues, and he concurred that the Council should be updated regarding major issues.

Committeemember Rawles suggested that the Council's audit recommendations be considered for inclusion in the annual plan.

Committeemember Griswold advised that he received several complaints regarding the Purchasing Division's printing bid notification process, and for that reason he placed a fictitious name on the list in order to receive bid notices. He reported that the fictitious printing firm received only one notice in three years. He stated the opinion that the intent of the Financing the Future Committee's recommendation was to have one function responsible for developing efficient methods and procedures and another function responsible for monitoring compliance. Committeemember Griswold suggested that the term "auditor" could be an inappropriate title to accomplish the desired outcome.

Chairman Walters said that as she thought about the position of City Auditor during the past few weeks, she recognized that during the City Manager's review process, the Council should have requested reports that addressed specific areas of concern.

Committeemember Rawles suggested that two functions report to the City Auditor position, one addressing the design of policies and procedures and the other for auditing purposes.

Mr. Ray advised that the organization of the Auditor General's Office includes a Financial Audit Division, a Performance Audit Division, and an Accounting Services Division. He explained that the Accounting Services Division provides assistance to departments in developing and writing the procedures and that the Financial Audit Division would conduct the audit. Mr. Ray stated that the two standards in the audit profession are the "red book," which is utilized by the Institute of Internal Auditors (IIA) for private entities, and the "yellow book," which is utilized by the Government Accountability Office (GAO) and is a common standard for local government entities. He expressed the opinion that legally the design function (developing and writing procedures) could report to the Audit function, but it is not required to do so. He suggested that the design function could report to the City Manager rather than the Auditor.

City Attorney Debbie Spinner responded to questions regarding the organization of her office by explaining that the City Prosecutor and two Deputy City Attorneys in the Civil area (one for litigation and one for administrative law) report to her.

Chairman Walters noted the organizational model of the Attorney's Office is similar to the proposed Office of the City Auditor. She added that the City Attorney and the City Manager work closely together and that both positions report to the Council.

Committeemember Rawles suggested that the change could simply reflect that the "hiring and firing" of the City Auditor is the responsibility of the Council, and that the position would work closely with the City Manager in a manner similar to that of the City Attorney. He added that a portion of the resources budgeted for the City Auditor's function could be reallocated to the City Manager's Office in order to implement the design function.

Mr. Brady stated that the design function could develop procedures and provide training, and the City Auditor could determine compliance with policies and procedures without any possible conflict of interest. He noted that some Councilmembers expressed an interest in having "specialists" conduct feasibility studies and organizational reviews of City operations. Mr. Brady suggested that the City Auditor could monitor these activities to ensure that the project adheres to the Council's direction by establishing checkpoints while maintaining independence from the

operational aspect. He added that an important role of an independent City Auditor would be to contribute a different perspective.

Committeemember Griswold expressed support for an organization model similar to that of the City Attorney's Office. He appreciates the fact that the City Attorney has the independence to state her opinions to the Council regarding issues, and he added that he would like the City Auditor to operate in the same manner. Committeemember Griswold stated the opinion that incorrect or insufficient data influenced several past Council decisions.

Committeemember Rawles said that he did not want to "over bureaucratize" the position. He noted that a perception exists in the community that for a very long period of time two people ran the City of Mesa, which was the genesis of the idea to create the position of an independent City Auditor reporting to the elected officials. Committeemember Rawles expressed the opinion that either of the two organization models discussed by the Committee would be acceptable.

Mr. Brady stated that based on discussions during the budget process, he planned to convert the existing audit area to the design function in a manner that would not conflict with the responsibilities of the City Auditor.

Committeemember Rawles outlined an organization chart on the board at the front of the room, which included the following:

- The City Auditor conducts audits based on the City's policies and procedures and reports to the Council through a Council Audit Committee and maintains a "dotted line" working relationship with the City Manager.
- The "design function" would develop policies and procedures and report to the City Manager with a "dotted line" relationship to the City Auditor.
- A "contract employee" position referred to as a "specialist," similar to a consultant, would address the major issues identified by the Council and report to the City Manager with "dotted line" relationships to the City Auditor and the Audit Committee.

Discussion ensued relative to the fact that the City Manager's Office could assist the Audit Committee in the selection of a contractor or specialist to address major issues or special projects; and that the City Auditor could conduct periodic checks to ensure that the specialist is properly addressing the project.

Mr. Brady explained that a specialist contracted to study a major issue requires a considerable amount of staff time on an ongoing basis in order to gather the data required for analysis. He stated the opinion that in addition to a report from a specialist, the Council should also consider the opinions of the department, the City Auditor and the City Manager. Mr. Brady referred to comments that in the past staff has provided incorrect information and advised that in most instances, staff believes that they are properly responding to the requests made by Council for information. He suggested that periodic reviews by a Council Committee or the City Auditor would provide an opportunity to ensure that the project is on target.

Chairman Walters noted that these types of discussions could also be conducted at the annual Council Retreat.

Mr. Ray suggested the creation of an Audit Committee in addition to the Finance Committee.

Chairman Walters recommended that the Finance Committee be renamed the Audit and Finance Committee, and that the City Manager be added as a member of the Committee. She noted that Council Committees serve in an advisory capacity to the full Council.

Discussion ensued relative to the fact that Councilmembers are welcome to attend Committee meetings; that the City Manager would serve as a non-voting, "ex-officio" member of the Committee; and that resources are available to fund the reorganized function under the City Manager and the proposed City Auditor position.

It was moved by Committeemember Rawles, seconded by Committeemember Griswold, to recommend to the Council that the Finance Committee be renamed the Audit and Finance Committee; that the City Manager be designated to serve as a non-voting, ex-officio member of the Committee; that the City Auditor, a position appointed by and serving at the pleasure of the Council, is responsible for the audit function, and that the City Manager be directed to establish a policy and procedure design office, which incorporates a function to facilitate Audit Committee-directed special projects; and that the Audit and Finance Committee would participate with the City Auditor and the City Manager regarding the preparation and implementation of annual audit plans and will receive and review the City Auditor's reports.

Carried unanimously.

Chairman Walters asked if Mr. Ray had concerns regarding the direction of the Committee.

Mr. Ray suggested that in order to maintain the independence of the City Auditor position, that the Councilmembers request or offer recommendations regarding audits rather than directing the City Auditor to conduct specific audits.

2. Adjournment.

Without objection, the Finance Committee Meeting adjourned at 4:50 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Finance Committee meeting of the City of Mesa, Arizona, held on the 10th day of August 2006. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

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Attachment (1)