

## **AUDIT & FINANCE COMMITTEE MINUTES**

February 20, 2007

The Audit & Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on February 20, 2007 at 3:00 p.m.

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

Chairman Walters, noting that this meeting was the Committee's first opportunity to examine audits, addressed procedural issues by advising that the agenda is posted for Committee discussion and direction regarding the audits. She explained that any issues regarding policy changes would be posted for discussion by the Committee at a future meeting, referred to another committee for a discussion of policy, or agenda'd for a policy discussion by the full Council.

City Attorney Debbie Spinner confirmed that procedures outlined by Chairman Walters were correct.

1. Hear a presentation, discuss and provide direction on the audit of the Human Resources Division employee-recruitment advertising costs through December 2005.

Acting City Auditor Gary Ray outlined the objectives of the audit as follows:

- Review and analyze the various methods of job recruitment advertising.
- Review the practices and procedures utilized.
- Determine whether the Human Resources Division properly assessed the viable alternatives.

Mr. Ray advised that recommendations generated by the audit process included reducing the amount of newspaper advertising and discontinuing color ads, and he stated that the Human Resources (HR) Division concurred with the recommendations. He said that HR responded that color ads were discontinued some time ago due to budget constraints and that applicant-tracking data indicates that the Internet is becoming the primary source of job information. Mr. Ray added that HR developed a new format for newspaper ads that could save the City approximately \$12,000 per month.

Committeemember Griswold expressed support for the audit process and noted that the department or division has an opportunity to respond to the findings and recommendations.

In response to a question from Chairman Walters, Mr. Ray advised that the Audit Division performs a follow-up on each audit within nine to twelve months to ensure that the recommendations were implemented.

2. Hear a presentation, discuss and provide direction on the audit of traffic citations – October 1, 2006 through October 31, 2006.

Mr. Ray advised that the Arizona Revised Statutes (ARS) requires a monthly audit of traffic citations. He said that although a typical finding is that an officer or a supervisor did not provide a reason for voiding a traffic citation, these audits seldom result in any findings. Mr. Ray reported that the audit for October 2006 determined that the Mesa Police Department complied with State law and departmental procedures.

Mr. Ray referred to ARS §28-1560 (B), which reads, "The appropriate fiscal officer of the governmental agency to which the traffic enforcement agency is responsible shall audit monthly the records of traffic citations required in this article." He stated the opinion that because the City Auditor position now reports directly to the Council, the City Auditor is no longer the "appropriate fiscal officer" to conduct these monthly audits. Mr. Ray suggested that responsibility for traffic citation audits be assigned to the Financial Services area, and that the Audit function conduct a review every year or two to ensure that the audits comply with the State Statutes.

Committeemember Rawles expressed support for assigning this audit to the Financial Services Division subject to a determination by the City Attorney regarding the definition of "appropriate fiscal officer."

Responding to a question from Chairman Walters, Deputy City Manager Bryan Raines advised that although Financial Services could probably absorb the additional duties that require one day per month by reallocating resources, he would like to review the situation prior to making a commitment.

Mr. Ray advised that his research with other cities in the Valley indicated that two cities with Auditor positions have assigned the responsibility for these audits to the finance area.

Chairman Walters stated that the consensus of the Committee is that they would support the recommendation to assign this responsibility to the Financial Services area, provided that the City Auditor reviews the reports every year or two.

Mr. Raines stated that staff would meet to coordinate the details and that an update would be provided to the Committee at a future meeting.

In response to a comment by Committeemember Rawles, Mr. Ray confirmed that although the Committee would not receive the monthly reports, the City Manager would continue to receive reports and monitor this activity.

Chairman Walters said that staff has direction to implement the changes as discussed.

3. Hear a presentation, discuss and provide direction on the audit of the Mesa Arts Center's complimentary tickets.

Mr. Ray advised that the objectives of the audit were to determine compliance with the Mesa Arts Center Ticket Policy regarding complimentary tickets and to determine whether City employees received tickets that could be defined as taxable benefits.

In response to a question from Chairman Walters, Mr. Ray stated this was the second of three audits of the Arts Center. He advised that audits of new operations are typically conducted in the third year of operation, but that the process was initiated when revenues generated by the Arts Center could not be identified as being received by the City. Mr. Ray reported that the first audit identified and confirmed that the revenues were received, and that the second audit addressed complimentary tickets for 15 of 118 performances with detailed tests on 1,835 of the 16,912 complimentary tickets.

Discussion ensued relative to the fact that the February 8, 2007 memorandum from Executive Manager Trisha Sorensen to the Mayor and Council (see Attachment 1), which clarifies an erroneous newspaper article, should be included in the audit report; and that although Mr. Ray was not included as a recipient of the memorandum, staff would provide him with a copy of the communication.

Committeemember Rawles stated the opinion that the important aspect regarding this issue was not the number of complimentary tickets, but whether the MAC staff handled the tickets in an appropriate manner and followed procedures. He explained that an irregularity discovered during an audit identifies weaknesses in a system and facilitates the development of procedures to avoid future problems. Committeemember Rawles expressed confidence that the MAC staff is addressing the issues.

Responding to a question from Chairman Walters, Mr. Ray said that the reason for auditing complimentary tickets controlled by outside groups renting the facility is that all performance tickets are handled by the MAC box office. He explained that the audit ensures that procedures are in place to verify that the MAC staff obtains the signatures of the individuals authorized by the group to receive complimentary tickets.

Performing Arts Administrator Randall Vogel stated that a contractor or lease licensee utilizing the MAC may distribute their inventory of tickets as they choose. He advised that the audit process implemented procedures to provide for an improved paper trail regarding the tickets. Mr. Vogel confirmed that a group that has met its contractual obligation with the MAC could request any amount or all of the tickets and distribute them in any manner they wish.

In response to a comment by Chairman Walters, Mr. Ray confirmed that in addition to maintaining a paper trail to indicate that the authorized group representative received a specific number of tickets, the procedures also include a requirement that only the authorized MAC representative may distribute the tickets to the group representative.

Mr. Ray reported that although the audit identified some instances where individuals created tickets for themselves or for hypothetical names, there was no indication of fraud. He stated that individuals authorized to generate tickets are no longer permitted to issue tickets for themselves,

and that all tickets generated must be associated with the name of an individual. Mr. Ray advised that each department or division is required to notify Accounting whenever a City employee receives something of value and that based on the Citywide Taxability Guideline, the value is reflected as an increase to the employee's compensation. He said that their audit process determined that some of the complimentary tickets issued to employees should have been reported to Accounting, but a review by the City Attorney's Office resulted in the opinion that the Arts Center is in compliance regarding taxability issues. He added that the City Attorney's Office has suggested several changes to the Taxability Guideline.

Assistant City Attorney Jack Shafer stated the opinion that the complimentary tickets provided to employees were not taxable. He advised that most of the complimentary tickets were for shows that were not sold out. Mr. Shafer said that in these instances, the City experienced no loss of revenue and the employees received no taxable benefit. He explained that the tickets are defined as a "no additional cost service fringe," and he compared the practice to that of other business entities, such as airlines permitting employees to fill vacant seats on flights. Mr. Shafer noted that many high-ranking MAC officials attend performances as part of their oversight of the facility. He added that if these employees were required to purchase their own tickets, the cost would be tax deductible. Mr. Shafer added that although he agrees with the Audit Report that the handling of complimentary tickets varied from the existing Taxability Guideline, he stated the opinion that the practice did not violate the law or incur a tax liability.

City Manager Christopher Brady suggested that a City policy regarding complimentary tickets not be limited to employees, but that the policy also address providing tickets to various organizations within the City when sales are slow for various shows.

In response to a question from Chairman Walters, Mr. Vogel explained that the bulk of the 4,700 complimentary tickets under the control of the MAC were provided to media or utilized for radio "trade outs" or other promotional activities. He stated that tickets are provided to MAC employees to familiarize them with the Arts Center and the performances, which enables them to provide better customer service.

Mr. Shafer advised that based on advice from the Internal Revenue Service (IRS) that a fixed dollar amount should be established, the non-taxable dollar limit in the City's policy is proposed to increase from \$50 to \$100. He noted that the IRS considers "frequency" to be a more significant factor than the dollar value.

Committeemember Griswold expressed the opinion that an effective policy establishes a reasonable limit regarding the receipt of complimentary items so that abuse is discouraged without creating the need for burdensome accounting.

Mr. Ray advised that a follow-up audit on the MAC would be conducted on December 15, 2007.

4. Discuss and provide direction on development of the Annual Audit Plan.

Mr. Ray stated that each member of the Council could suggest areas to be addressed in the Audit Plan for the next fiscal year. He advised that the audit plan approved for the current fiscal year by the City Manager is being implemented, but he noted that reduced staffing levels may result in certain areas of the plan not being accomplished. He said that these items could be carried over to the next year or a completely new plan could be developed.

Mr. Brady suggested that Mr. Ray could provide an update on the current Audit Plan at the next meeting of the Audit & Finance Committee.

Chairman Walters stated that she was particularly interested in audits of the functions that interact with the public with regard to the processing of cash, checks and credit card payments.

In response to a question from Committeemember Rawles, Mr. Ray said that staff is currently addressing an audit for the Court system which is required every three years. He noted that other recurring audits include traffic citations, Idea Club awards, Fleet Support inventory and Solid Waste asset review.

Responding to a question from Chairman Walters, Mr. Ray stated that other departments frequently request that the Audit Department conduct a review of certain aspects of the operation such as their statements, bids received or contracts.

Chairman Walters said that she and Assistant City Manager Debra Dollar discussed the fact that staff should ensure that responses to audits are thorough and complete. She noted that the Committee and the press would receive information at the same time and that the audit, including staff's response, would also be available on the City's website.

Chairman Walters thanked staff for the presentation.

5. Hear an update on the process for recruiting the City Auditor.

Ms. Dollar advised that the recruitment process that began in December generated twenty applications for the position of City Auditor. She reported that six candidates have been selected to participate in an initial screening process on February 21<sup>st</sup> conducted by a panel comprised of herself, Deputy City Manager Bryan Raines and a respected Certified Public Accountant from the community. Ms. Dollar stated that the panel would then recommend two or three finalists for Council consideration.

In response to a comment by Committeemember Rawles that he would not be available during the period of March 17<sup>th</sup> through the 31<sup>st</sup>, Ms. Dollar advised that staff would take his schedule into consideration and attempt to schedule the final interviews prior to that timeframe.

6. Adjournment.

Without objection, the Audit and Finance Committee meeting adjourned at 3:47 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit & Finance Committee meeting of the City of Mesa, Arizona, held on the 20<sup>th</sup> day of February 2007. I further certify that the meeting was duly called and held and that a quorum was present.

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BARBARA JONES, CITY CLERK