



## AUDIT, FINANCE & ENTERPRISE COMMITTEE

April 11, 2013

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 April 11, 2013 at 10:46 a.m.

### COMMITTEE PRESENT

Alex Finter, Chairperson  
Dina Higgins  
Scott Somers

### COMMITTEE ABSENT

Christopher Brady, Ex Officio

### STAFF PRESENT

Alex Deshuk  
Debbie Spinner

#### 1. Items from citizens present.

There were no items from citizens present.

#### 2-a. Hear a presentation, discuss and provide direction on the proposed fees and charges for the following departments:

1. Fire and Medical
2. Falcon Field Airport
3. Transportation
4. Engineering
5. Solid Waste Management
6. Development and Sustainability

Budget Director Candace Cannistraro displayed a PowerPoint presentation (**See Attachment 1**) highlighting the proposed fees and charges for the above-listed departments. She explained that staff from the various departments were present in the audience to respond to any questions the Council may have in this regard.

### DEVELOPMENT AND SUSTAINABILITY DEPARTMENT

Ms. Cannistraro reported that the Development and Sustainability Department is requesting that the Technology Improvement Fee be increased from a maximum of \$400 per permit to a maximum of \$800 per permit.

Responding to a question from Committeewoman Higgins, Director of Development and Sustainability Christine Zielonka explained that the Technology Improvement Fee that was adopted four years ago applies to all building and planning permits. She said that the fee is used to fund technology improvements, enhancements and replacements. She added that increasing the cap on the Technology fee to \$800 brings the City closer to covering the total cost of the technology improvements.

Ms. Zielonka indicated that the Technology fee for small projects, such as a shed, are calculated at the rate of 4% of the permit fee. She explained that calculating all projects at a rate of 4% across the board could become very expensive especially for large projects. She noted that last year there were 72 projects that would have exceeded the \$400 cap. She added that staff will continue to evaluate and monitor the fee over the course of the next year to ensure that the fee does not become a disincentive.

Ms. Cannistraro advised that the current fee schedule does not include a fee for amendments made to a Community Plan. She stated that staff is recommending that a new fee for minor amendments made to a Community Plan be set at \$2,400. She said that the fee for major amendments will be the same as the initial zoning fee. She added that these fees will help to offset the cost of the services provided by staff. (See Page 4 of Attachment 1)

In response to a question from Committeemember Somers, Ms. Zielonka advised that at this time there is only one Planned Community District in Mesa. She explained that the majority of the detailed infrastructure planning takes place at the Development Plan level. She said that this fee will help to provide some cost recovery with regard to the amount of staff time it takes to review and approve Development Unit Plans (DUP). She remarked that while there is currently only one development project at this time, staff does anticipate that there will be another project next year.

Committeemember Somers remarked that implementing specific fees for Planned Community Districts could have the appearance that the City is targeting one particular company. He noted that this fee would make more sense if there was more than one Planned Community District in Mesa.

Discussion ensued regarding other large areas of land within the City where another Planned Community District could develop.

Responding to a question from Councilmember Somers, Ms. Zielonka advised that staff has not discussed the proposed Planned Community District fee with DMB Properties. She noted, however, that DMB Properties does acknowledge that a significant amount of time and effort is spent on DUP.

Committeemember Somers requested that staff discuss and obtain input from DMB Properties regarding the implementation of a Planned Community District fee and provide said input along with the purpose for imposing the fee to the Council.

Ms. Zielonka commented that a major amendment to a Community Development Plan would need to go through Planning and Zoning and be brought back to the Council for approval. She requested that the fee for major amendments align with the cost of the initial zoning.

Ms. Zielonka further requested that a Compliance Agreement Fee of \$150 be implemented to cover the costs of complicated Code Compliance cases. She explained that these cases can involve a large amount of staff time to complete. (See Page 3 of Attachment 1)

Committeewoman Higgins remarked that a \$150 Code Compliance fee could pose a financial hardship for the residents involved.

Ms. Zielonka commented that last year the only complicated Code Compliance case that the City had was against a Homeowners Association (HOA) and not an individual resident.

Ms. Cannistraro discussed additional administrative changes, language revisions and fee adjustments that have been recommended by the Development and Sustainability Department. She said that some fees are no longer necessary and will be deleted since the information can now be obtained on the internet. (See Page 5 of Attachment 1)

In response to a question from Committeemember Somers, Ms. Zielonka explained that currently the City does not have a Historic Preservation Officer and noted that City Planner John Wesley is currently handling those duties. She added that the Historic Preservation Fee is currently set at \$150.

Committeemember Somers stated that "Historic Preservation" falls within the City's Quality of Life Strategic Initiative. He requested that staff include an option to delete and/or waive the Historic Preservation Fee.

Ms. Cannistraro advised that staff currently does not have a recommendation with regards to the Environmental Compliance Fee, however, data has been obtained that indicates that various departments are experiencing increased costs in areas that are currently funded by this fee. She added that staff will research the costs and provide the Committee with a recommendation on May 20<sup>th</sup>.

Ms. Zielonka commented that the Environmental Compliance Fee is used to cover unfunded environmental mandates from the Federal government.

## ENGINEERING DEPARTMENT

Ms. Cannistraro outlined the recommended changes to the Engineering Department's 2013/14 fees and charges (See Page 6 of Attachment 1) as follows:

- Grading Inspection fee (will be deleted)
- Pavement Replacement Bond (will be deleted)
- Subdivision Lot Staking (will be deleted)
- Street Light Cabinet Control Panel (will be deleted)
- Public Right-of-way (increase)
- Easement abandonment (increase)
- Document copying (increase)
- Transfer E-Streets/Broadband fees from the Information and Technology Department to the Engineering Department

In response to a question from Chairperson Finter, City Engineer Beth Huning explained that it takes a considerable amount of staff time to complete a residential abandonment. She stated that prior Council policy has been to collect the value of the land plus the administrative costs. She said that because land values are so low, staff is recommending that the residential abandonment fee be increased to \$500.

In response to a question from Committeemember Somers, Ms. Huning explained that abandonments consist of alleys and easements that have been dedicated or given to the City. She said she is unaware of any costs associated with maintaining easements, however, there are some costs associated with maintaining alleys. She noted that alley abandonment is a slightly different process.

Ms. Huning reported that in the Dobson Ranch area there are easements along the back lot lines that are not maintained by the City. She stated that a significant amount of staff time is required in order to clear a title and make sure that a property can be abandoned.

Responding to a question from Committeemember Somers, Ms. Huning explained that numerous Freedom of Information Act requests are received, which require a significant amount of documents to be copied. She added that State law does permit the City to charge for the copies made on Freedom of Information Act requests.

#### FALCON FIELD AIRPORT

Ms. Cannistraro continued with the presentation and provided a brief overview of Falcon Field Airport's 2013/14 fee recommendations. (See Page 8 of Attachment 1) She said that Falcon Field Airport is recommending the deletion of various fees as follows:

- Hangar Sealing (will now be included under regular maintenance)
- Airport equipment minimum charge
- Labor rate and overtime labor rate for emergencies
- Aircraft registration violation fee
- Changes to the fee for description titles

#### FIRE AND MEDICAL DEPARTMENT

Ms. Cannistraro reported that there is an error in the presentation with regard to the proposed fees and charges for the Fire and Medical Department. She clarified that the estimated additional revenue that will be generated annually by implementing the new fees is \$5,970. In addition, she said that staff is recommending that the \$150 tent event fee be increased to \$300. She noted that the fee will only apply to applicants who do not submit their request at least 14 days prior to the event. (See Page 9 of Attachment 1)

In response to a question from Committeemember Higgins, Deputy Fire Chief Rich Kochanski explained that many times applications for firework tents are received late in the afternoon on a Thursday with the intention of opening for business on Saturday. He said that currently the Fire Department does not have the ability to send someone out to inspect the tents after hours or on weekends. He stated that staff is recommending that a fee be implemented to help recover the labor and administrative costs of late tent permit requests.

Chief Kochanski remarked that tent companies are aware of the rules and know that a permit is required in order to set up the tent. He added that the fee schedule is also available on the website. He stated that with a limited staff it will be difficult to schedule inspections after hours, however, such an option will be explored.

Committeemember Somers suggested that the new fee focus primarily on large, high occupancy types of tents or those that contain hazardous materials and pose the greatest risk or problems for the Department.

Chief Kochanski indicated that he would research some possible options for categorizing the types of tents in order to eliminate any unintended consequences to businesses.

#### SOLID WASTE DEPARTMENT

Ms. Cannistraro continued with the presentation and said that in order to bring Mesa's fees up to a rate comparable with surrounding cities, the Solid Waste Department is recommending that the fee for private solid waste haulers operating within the City of Mesa be increased. She said the increase would be phased in over a two-year period of time from \$200 to \$500. (See Page 10 of Attachment 1)

Responding to a question from Committeewoman Higgins, Ms. Cannistraro explained that the City currently charges private waste haulers a \$200 fee, plus a \$200 fee for each truck that operates within the City. She reiterated that the Solid Waste Department is recommending that the charges be increased from \$200 to \$500.

Solid Waste Department Interim Director Michael Comstock commented that there are currently 25 private solid waste companies operating a total of 95 trucks within the City of Mesa. He said that private haulers can only operate on the commercial side of the business and noted that the City of Mesa's Solid Waste Department competes for those accounts.

Responding to a question from Committeemember Somers, Mr. Comstock explained that private haulers deliver their waste to the landfill or transfer stations. He advised that the private haulers are charged a fee to operate and conduct business inside the City limits.

Mr. Comstock provided brief background information regarding the origin of the private hauler fee and said that the commercial side of the business was opened up for competition in the late 1980's. He reported that surrounding cities were surveyed and it was determined that Mesa's private waste hauler fees are significantly lower than those in other communities. He stated that staff is recommending that the fee be phased in over a two-year period of time in order to avoid any financial hardships this increase may have on smaller companies.

In response to a question from Committeewoman Higgins, Mr. Comstock advised that a detailed briefing on the competitiveness of the commercial side of the business will be provided to the Council during the budget presentation on May 9, 2013.

Committeemember Somers remarked that he would not have a problem with the City charging a fee, if the City were providing some type of service.

Mr. Comstock pointed out that private haulers utilize the City's streets and infrastructure.

Discussion ensued relative to charging private solid waste haulers a fee for the privilege of operating within the City of Mesa.

Responding to a question from Committeewoman Higgins, Mr. Comstock advised that the City of Chandler contracts their solid waste service with Waste Management. He said that not only does the City of Chandler contract with Waste Management, but they also charge them a base fee of \$300 plus \$1,000 per truck.

Committeemember Somers requested that this item be discussed before the full Council and that staff provide an option to eliminate the fee. He requested that staff justify why the fee is necessary and report what the real impact of the fee will be to the Council.

Ms. Cannistraro clarified that the fee for each vehicle operated by private haulers within the City of Mesa, as well as the Application fee would be increased from \$200 to \$500.

Committeemember Somers inquired as to whether the fee that is being collected from private haulers to cover the use of the infrastructure was being transferred over to the Transportation Department.

In response to a question from Councilmember Somers, Senior Executive Manager Chuck Odom explained that the fees that are collected are part of the Solid Waste Department's operating revenue.

Mr. Odom provided some background information regarding the original purpose of the private hauler fees. He said that years ago when the State law changed, the City audited all of the private solid waste companies to ensure that they were financially viable. He explained that at that time there were many "mom and pop" businesses that lacked financial structure and were either abandoning customers or building a customer base only to sell it off to another company.

Committeemember Somers remarked that it seems the fee was initially implemented as a means to "shake out" financially viable providers. He questioned whether this same reasoning holds true today.

Manager of Technology and Innovation Alex Deshuk commented that solid waste providers are not charged a Transaction Privilege Tax (TPT).

Discussion ensued regarding private solid waste haulers being charged to use the City's infrastructure, while other businesses, who also use the City's infrastructure, are not charged.

Mr. Comstock stated that he would research and determine how much of the revenue collected from these fees contributes to the \$18.5 million that the Solid Waste Department transfers to the General Fund. He added that he would provide that information to the Council at a future meeting.

## TRANSPORTATION DEPARTMENT

Ms. Cannistraro advised that the Transportation Department currently has a loan program that allows contractors to use some of the City's inventory in order to complete a project right away. She explained that contractors will give the City a deposit in order to use the City's inventory

and will replace what is used when their order is received. She said that staff is requesting that the fees charged to contractors who borrow the City's equipment be revised to reflect the value of the inventory used. (See Page 11 of Attachment 1)

Chairperson Finter commented that he received a call from a citizen who was having a Block Watch event and was pleased to learn that the barricade fee had been waived.

Committeemember Somers remarked that the City needs to be cautious when implementing fees in order to avoid unintended consequences that may affect the revitalization efforts in downtown.

Chairperson Finter thanked staff for their efforts.

2-b. Hear a presentation, discuss and provide direction on the proposed utility rate adjustments.

Budget Director Candace Cannistraro displayed a PowerPoint presentation (**See Attachment 2**) and discussed the proposed utility rate recommendations for FY 2013/14. She explained that staff from the various departments were present in the audience to respond to any questions the Council may have in this regard.

Ms. Cannistraro reminded the Committee that the Capital Improvement Program (CIP) does have an effect on the utility rates. She also said that while each utility inside the Enterprise Fund operates as a separate business, the Enterprise Fund itself is managed as a whole. She reported that the combined ending fund balance will adhere to the adopted financial policy of at least 8% to 10%. (See Page 2 of Attachment 2)

Chairperson Finter commented that even during the City's worst economic times the Council's direction has always been to try and keep the ending fund balance closer to 8%. He said that after reviewing the Comprehensive Annual Financial Report (CAFR) it appears that in June of 2012, the City had an ending fund balance of 30%. He indicated that he has requested that reconciliation from June of 2012 to June of 2013 be conducted to determine what the ending fund balance is and what funds have been expended.

Ms. Cannistraro reported that as a result of some previous adjustments that were made (debt refinancing and "right-sizing" of CIP for anticipated growth) staff is proposing a rate change of 0% across the board for all utilities. (See Page 3 of Attachment 2)

Chairperson Finter commented that the Council is requesting an option that would allow the total transfer amount from the Enterprise Fund to be increased in order to address the City's \$8 to \$9 million deficit.

Ms. Cannistraro displayed the tentative utility rate adjustments for FY 2013/14 and beyond. She explained that the funding model that has been presented does not reflect any increases in the total transfer from the Enterprise Fund. (See Page 4 of Attachment 2)

In response to a question from Committeemember Somers, Ms. Cannistraro explained that the 8% to 10% ending fund balance is something that is considered when determining the City's bond rating. She said that it is estimated that the City will end the FY 2013 with an ending fund balance of 21%.

Ms. Cannistraro reminded the Committee that there will be planned draw-downs of the fund balance over the next few years. She noted that the planned draw-downs will bring the ending fund balance down to an estimated low of 11.22% for FY 2015/16.

Chairperson Finter remarked that several years ago Council's direction was for the ending fund balance to be at 8%. He noted, however, that the fund balance is not even close to 8%.

Mr. Odom discussed how the City's operating costs affect the ending fund balance percentage as well as other factors that are taken into consideration when determining the City's bond rating, such as cash revenues, utility revenue bonds, utility generated revenues and debt service.

Mr. Odom clarified that the 8% ending fund balance has always been on the forecast horizon. He explained that when there is a structural budget imbalance where the revenues and expenditures are not equal, the fund balance will be drawn-down over time.

Mr. Odom further commented that the City has experienced some economic changes over the past few years. He explained that in order to avoid "budget shock," staff uses a five-year horizon with a targeted ending fund balance of 8% to 10%.

Discussion ensued with regards to "stretching" the draw-downs of the ending fund balance out over a period of time.

Ms. Cannistraro displayed a table illustrating the proposed utility rate adjustments and said that as anticipated no across the board utility rate increases have being recommended. She also referenced a table entitled Tentative Utility Rate Adjustments beyond FY 2013/14 that illustrates the City's current forecasted rate increases. She said that these rate increases are based on staff's current projections and modeling. (See Pages 3 and 4 of Attachment 2)

Chairperson Finter requested that staff compare the City's gas utility rates (Magma Gas) to the rates of Southwest Gas and provide that information to the Council.

Ms. Cannistraro referred to a table that illustrates what the anticipated financial impact will be to the average residential utility customer for the FY 2013 and beyond. (See Page 5 of Attachment 2) She noted that a Council Report has been provided that highlights additional departmental recommendations.

Ms. Cannistraro also displayed the Utility Rate Consideration Schedule for FY 2013/2014 and said that the Utility Rate Notice of Intention will be adopted on May 6, 2013. She advised that final adoption of the utility rates will occur on June 17, 2013 and noted that the new fees will become effective on July 30, 2013.

Chairperson Finter thanked staff for the presentation.

(Chairperson Finter excused Committeemember Somers from the remainder of the meeting.)

2-c. Hear a presentation, discuss and provide direction on the following audit:

1. Arizona Museum of Natural History

City Auditor Jennifer Ruttman addressed the Committee and reported that an audit of the Arizona Museum of Natural History was conducted. **(See Attachment 3)** She said that the purpose of the audit was to determine if internal controls were in place and to ensure the interest of the museum's inventory is protected.

Ms. Ruttman provided a brief overview of staff's observations and recommendations as follows:

- Increase collection/exhibit inventory management, maintain more complete records and ensure the accuracy of the database, conduct an inventory of all assets
- Execute new agreements with supporting affiliates (Museum Foundation and Museum Guild), define roles and responsibilities, ensure that the interest of all parties is protected
- Perform background checks on all volunteers that may have contact with minors, disabled individuals, access to valuable artifacts or City computer systems
- Improve financial controls with regard to cash donations, revenue from promotional passes and credit card transactions

Chairperson Finter thanked Ms. Ruttman for the presentation.

### 3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 11:51 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 11<sup>th</sup> day of April, 2013. I further certify that the meeting was duly called and held and that a quorum was present.

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DEE ANN MICKELSEN, INTERIM CITY CLERK

bdw  
(attachments – 3)

# City of Mesa

## FY 13/14

# Fees & Charges

## April 11, 2013

Presented by the Office of Management and Budget



# FY 2012-13 Fees & Charges

- Development & Sustainability
- Engineering
- Falcon Field Airport
- Fire & Medical Services
- Solid Waste Management
- Transportation

# Development & Sustainability

- Financial Impact \$30,300 – Development Services

## Development Services

- Technology Improvement Fee increase the Maximum from \$400 per permit to \$800
- Utility Service Fee - revise language
- Add Compliance Agreement of \$150 per agreement for complicated circumstances

# Development & Sustainability(cont.)

- Financial Impact \$18,200 - Planning

## Planning

- Technology Improvement Fee increase the Maximum from \$400 per permit to \$800
- New \$2,400 fee for minor amendment
- Major amendment – same as initial zoning fee

## Development & Sustainability(cont.)

- Implement 3 levels of Unit charges based on number of acres
- Historic Preservation Fees - include HL for Historic Landmark
- Annexation Equity Fee – language revision.
- Delete 4 Miscellaneous fees that are no longer collected

# Engineering

- Financial Impact \$4,122

## Change following fees:

- Delete Grading Inspection fee
- Delete Pavement Replacement Bond
- Delete Subdivision Lot Staking
- Delete Street Light Cabinet Control Panel
- Public Right-of-Way

## Engineering (cont.):

- Easement Abandonment
- Document Copying
- Transfer E-Streets/Broadband fees from Information Technology Department

# Falcon Field Airport

- Financial Impact \$0

Delete following fees:

- Hangar Sealing
- Airport Equip, Min Charge
- Labor Rate & O.T. Labor Rate for emergencies
- Aircraft Registration Violation
- Change fee description titles

# Fire & Medical Services

- Financial Impact \$0
- Increase \$150 event fee to \$300 when applicant applies less than 14 days of the event
- \$40 for each additional tent inspection

# Solid Waste Management

- Financial Impact \$36,000 – Private Solid Waste Haulers

- Increase \$200 Application Fee to \$500
- Increase \$200 for each Vehicle

# Transportation

- Financial Impact \$0
- Revise fees charged to contractors that borrow City owned traffic signal equipment



# City of Mesa

FY 13/14

## Utility Rate Recommendations

Audit, Finance & Enterprise Committee

April 11, 2013

Presented by the Office of Management and Budget



## Enterprise Operations Financial Summaries

- Each utility is operated as a separate business center
- Debt Service has a significant impact on future rates
- Total Transfer amount from Enterprise fund will remain the same
- Fund balance is used to smooth the rate adjustments year-to-year
- Combined Ending Fund Balances will adhere to the adopted financial policy of at least 8-10%

# Proposed Rate Adjustments

	Prior Year		FY 2013/14	FY 2013/14
			Projection	Proposal
Electric	0.0%		0.0%	0.0%
Gas	0.0%		0.0%	0.0%
Water	0.0%		0.0%	0.0%
Wastewater	0.0%		0.0%	0.0%
Solid Waste	0.0%		0.0%	0.0%
District Cooling	0.0%		0.0%	0.0%

# Tentative Utility Rate Adjustments Beyond FY13/14

	FY 2014/15	FY2015/16	FY2016/17	FY2017/18
ELECTRIC	2.000%	2.000%	2.000%	2.000%
GAS	3.000%	3.000%	3.000%	3.000%
WATER	4.100%	3.800%	3.000%	3.000%
WASTEWATER	4.100%	3.800%	3.000%	3.000%
SOLID WASTE	4.100%	3.800%	3.000%	3.000%

# Tentative Utility Rate Adjustments Beyond FY13/14

	AVERAGE		ANNUAL IMPACTS			
	RESIDENTIAL MONTHLY BILL		FY2014/15	FY2015/16	FY2016/17	FY2017/18
Water	\$38.21		\$1.57	\$1.51	\$1.24	\$1.28
Wastewater	\$25.03		\$1.03	\$0.99	\$0.81	\$0.84
Solid Waste	\$23.88		\$0.98	\$0.94	\$0.77	\$0.80
<b>Avg Homeowner</b>	<b>\$87.12</b>		<b>\$3.57</b>	<b>\$3.45</b>	<b>\$2.82</b>	<b>\$2.91</b>
Electric	\$77.18		\$1.54	\$1.57	\$1.61	\$1.64
Gas	\$24.47		\$0.73	\$0.76	\$0.78	\$0.80

# Schedule for FY 13/14 Utility Rate Consideration

**May 6** – Adopt Utility Rate Notice of Intention

**June 3** – Introduce Utility Rate Ordinances

**June 17** – City Council Action on Utility Rates

**July 30** – Effective date for Utility Rate changes

## Enterprise Operations Beyond FY1314

- Energy Resources will be negotiating new contracts for electric power and natural gas in the coming year that may affect rates in future years.
- Solid Waste is exploring the options and savings that CNG vehicles offers. Landfill and Transfer contracts are coming due and options are being explored in these areas as well.
- Water Resources will be coming back at the end of August to get direction as to possible rate restructuring options in order to more closely reflect changes in water consumption being experienced by the City.





20 E Main St Suite 820  
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Mesa, Arizona 85211-1466

**Date:** February 28, 2013

**To:** Audit, Finance & Enterprise Committee

**From:** Jennifer Ruttman, City Auditor

**Subject:** Audit of Arizona Museum of Natural History – Final Report

**cc:** Natalie Lewis, Assistant to the City Manager  
Cindy Ornstein, Arts and Culture Department Director  
Robert Schultz, Arts Administrator  
Tom Wilson, Museum Administrator

Attached is the final report on our Audit of the Arizona Museum of Natural History. The report includes 4 Corrective Action Plans (CAPs) with responses from management. We will perform a follow-up review in approximately 12 months to determine whether the action plans have been implemented. The report will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. If you have any questions, please feel free to contact me at x3767.



20 E Main St Suite 820  
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Mesa, Arizona 85211-1466

## **AUDIT REPORT**

**CITY AUDITOR**

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**Report Date:** February 28, 2013  
**Department:** Arts & Culture  
**Subject:** Arizona Museum of Natural History (AzMNH)  
**Lead Auditor:** Bill D'Elia

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### **OBJECTIVE**

This audit was conducted to determine whether internal controls are in place and operating effectively to provide reasonable assurance that management's objectives will be achieved, and to reduce the risk that losses due to errors or fraud could occur without detection.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we:

- Reviewed departmental and applicable citywide policies and procedures
- Interviewed staff members
- Tested inventory, administrative, and financial records from the current & prior fiscal years.
- Reviewed contracts and agreements with affiliate entities

### **BACKGROUND**

The AzMNH is an 80,000 square foot museum which houses tens of thousands of archaeological and paleontological objects, historic photographs, and educational exhibits. The Museum operates with approximately 13 FTEs, on an annual budget of \$1.4M, about half of which is offset by revenues. The staff is supplemented by more than 170 active volunteers. In addition to general and group admission fees, revenues are generated by various educational programs and events held throughout the year, and for space rented to private parties. The Museum Gift Shop and its revenues are managed by the Museum Guild; and revenues from membership sales are managed by the Museum Foundation. Both of these entities are non-profit organizations that exist to support the Museum.

The AzMNH was last audited by the City Auditor in FY 2000/2001. At that time, several recommendations were made to improve controls, with specific emphasis on purchasing, cash handling, and relationships with supporting organizations. These areas were reviewed again for the current audit; and additional areas, including but not limited to inventory management and security, were added to the audit program.

### **CONCLUSION**

In our opinion, except as noted below, internal controls are in place and operating effectively to provide reasonable assurance that management's objectives will be achieved, and to reduce the risk that losses due to errors or fraud could occur without detection. A summary of key

observations and recommendations is presented below. For additional details, please see the attached corrective action plans (CAPs).

### **SUMMARY OF OBSERVATIONS & RECOMMENDATIONS**

1. Collection/exhibit inventory management needs improvement. The Museum should maintain more complete records of all collection objects and any objects of significant value held for exhibition and/or education purposes. In addition, regular inventory procedures should be performed, to verify the existence, location and condition of each object; and to ensure the ongoing accuracy of the database.
2. Agreements with affiliate entities are outdated. The Museum should execute new agreements with its supporting affiliates, i.e. the Museum Foundation and the Museum Guild, to define roles and responsibilities, and to ensure the interests of all parties are protected.
3. Initial processing of volunteers needs improvement. The Museum should perform background checks on all volunteers who are anticipated to have contact with minors or the disabled, as well as any volunteers with access to valuable artifacts and/or City computer systems. In addition, parental consent forms should be obtained for volunteers under the age of 18.
4. Opportunities exist for improvement of certain financial controls. Overall, financial controls at the Museum are strong and effective. However, a few minor improvements are needed with regard to cash donations, revenue from promotional passes, and certain credit card transactions.

## **CAP#1: Collection/Exhibit Inventory Management**

- Observations:**
- 1-1. The information recorded in the Museum's automated collections database is not always accurate and complete.
  - 1-2. A complete inventory has not been performed, and a formal periodic inventory process has not been established.
  - 1-3. Collection objects and other items loaned to outside organizations and have not been closely tracked and many have not been returned in a timely manner.

- Criteria:**
- The Arizona Museum of Natural History Policy on Collections, adopted in January 2006 by the Museum & Cultural Advisory Board, defines how the museum acquires, cares for and manages its collections. According to this policy, the Museum is required to:
- Maintain a database of accession records, catalog records, donor information, and location and inventory information.
  - Keep records of objects acquired for education or exhibition use.
  - Conduct periodic inventories of the collection, to ensure the ability to locate and assess the condition of objects.
  - Limit loans of collection or exhibit objects to one year, unless a written request for extension or renewal has been approved.

- Comments:**
- 1-1. Database Completeness/Accuracy:  
The information recorded in the collections system is not always complete and accurate. According to staff, the system does not serve as a comprehensive inventory management system, and the Museum has not had the resources required to maintain it as such.  
  
Objects are not recorded in the Museum's database until they are fully accepted into the collection, which is often a lengthy process. This can result in an object being held on the premises for an extended period of time (>1 year), with no record of its status, location, or value. Adding such an object to the database with an appropriate identifying code would provide accountability as well as a method for tracking items awaiting accession into the collection.  
  
In addition, the automated collections system is not used to track non-collection objects held by the Museum for exhibition or educational use. Some of these items are of significant value, such as the Museum's mammoth casting, which is worth well over \$100,000. Not having valuable items listed on inventory records is a significant internal control deficiency and increases the risk that theft, damage, or other losses could occur without detection or accountability. Such losses would be difficult to recover without detailed records to substantiate the existence and value of the items.
  - 1-2. Periodic Inventories: Occasional inventories of selected areas have been conducted, but a complete inventory has not been conducted to ensure all objects are accounted for and records are current, and a

formal periodic inventory process has not been established.

- 1-3. Objects on Loan to Other Entities: The data in the automated collection system for objects out on loan is not always accurate. There is no system in place to flag overdue objects, and staff members must periodically go through the files to look at the status of these objects. As a result, objects are often not returned in a timely manner.

- Recommendations:**
- 1-1. The Museum should maintain accurate records of all collection objects, all objects held pending accession to the collection, and all objects of significant value held for exhibition or educational use. To the extent possible, the Museum's collection database should be utilized for this purpose. The purchase price or other record of value (if any) should also be recorded.
- 1-2. Management should develop a plan to:
- Perform a complete inventory and bring the database up to date.
  - Implement a periodic or perpetual inventory process, to ensure the ongoing accuracy of the inventory records.
- 1-3. All loans of Museum collection objects should be recorded in the collections database, which should be used to track loan status.

**Management Response:**

1-1. Agree

Implementation plan: Agree that museum should keep accurate records in all categories listed. Agree that all collection objects should be in collections management database. The museum will keep accurate records of all objects pending accession and all objects of significant value held for exhibition or educational use. The museum will record the purchase price or appraised value in appropriate location.

Implementation Date: Ongoing

1-2. Agree

Implementation plan: Museum currently performs periodic and perpetual inventory, to ensure the ongoing accuracy of inventory records. A complete inventory of the collections of a museum of the size and type of AzMNH normally takes years, as will bringing the database up to date. AzMNH will comply commensurate with staffing and financial availability.

Implementation Date: Ongoing; complete inventory by 2020

1-3. Agree

Implementation plan: Agree that loans should be in the collections database. For this to occur, the objects lent need to be in the collections database. While we catch up on entering collections objects in the collections database, loans will be recorded in the non-electronic collections database, the loan files.

Implementation Date: Ongoing

## **CAP#2: Affiliate Agreements**

- Observations:**
- 2-1. The "Agreement between The City of Mesa and The Southwest Museum Foundation" is 15 years old and does not accurately reflect the current relationship between the two organizations.
  - 2-2. The "Cooperative Relations Agreement between The City of Mesa and The Mesa Southwest Museum Guild" expired 8 years ago and may not reflect current requirements.

**Criteria:** Valid agreements between the City and its affiliate entities should be maintained, in order to accurately define the roles, responsibilities, and expectations of all parties. Such agreements help to ensure business objectives are met, responsibilities are fulfilled, accountability is possible, and all parties are protected from potential liabilities.

- Comments:**
- 2-1. Agreement with the SW Museum Foundation: Under the current (1997) agreement, the primary responsibility of the Foundation is to raise funds for the Museum expansion (which was completed approximately 12 years ago). Today, the funds raised by the Foundation are used for many other purposes, including: care of collections; temporary exhibits; special programs; general operations; etc. These uses of funds are not provided for in the agreement.

While the Foundation does receive private donations, the majority of its revenue comes from selling memberships, which entitle the purchaser to unlimited admission to the Museum. There is no provision for this in the current agreement. However, since this activity directly impacts museum revenue, the related roles and responsibilities should be included in the agreement. For the fiscal year ended 6/30/2012, membership sales exceeded \$44,000.

- 2-2. Agreement with the SW Museum Guild: The Guild operates the Museum's gift shop and runs the volunteer program, but the agreement governing the Guild's activities expired in 2004. One of the provisions of that agreement was for the Guild to obtain both liability and worker's compensation insurance. They have not done so, however, because Guild members thought they were covered by the City. This leaves the City exposed to unnecessary liability and risk of loss.

- Recommendations:**
- 2-1. Management should negotiate a new agreement between the City and the Museum Foundation, to define their respective roles and responsibilities, and to ensure the interests of both parties are protected.
  - 2-2. Management should negotiate a new agreement between the City and the Museum Guild, to define their respective roles and responsibilities, and to ensure the interests of both parties are protected.

**Management  
Response:**

2-1. Agree

Implementation plan: AzMNH will initiate the process with AzMNH Foundation by March 31, 2013. AzMNH will then work with the 501(c)(3) organization and City of Mesa departments to guide and keep on track the process of updating the agreement.

Implementation Date: 12/31/2013

2-2. Agree

Implementation plan: AzMNH will initiate the process with AzMNH Foundation by March 31, 2013. AzMNH will then work with the 501(c)(3) organization and City of Mesa departments to guide and keep on track the process of updating the agreement.

Implementation Date: 12/31/2013

### **CAP#3: Initial Processing of Volunteers**

- Observations:**
- 3-1. Background checks are performed only for volunteers who work alone with children, but are required for all volunteers who have *contact* with minors, disabled or homebound persons.
  - 3-2. Parental authorization forms were not required for volunteers under age 18.

**Criteria:** Arts and Cultural Department Administrative Regulation 3.6 states:  
*"Persons who volunteer their time to the City of Mesa must be fingerprinted for the purpose of a background check if their volunteer duty involves contact with minors, disabled or homebound persons. If an individual is a member of an organization which exists only to serve the City or one of its operations, then members of that organization who volunteer are considered to be City volunteers and must be fingerprinted and have a background check if their volunteer duty involves contact with minors, disabled or homebound persons. The determination of which volunteer positions require fingerprinting and which will not lies with the responsible Administrator."*

Management Policy 349 (Volunteer Program) states:  
*"...City Ordinance 3217 requires fingerprints for volunteers who are anticipated to be in contact with minors, homebound, or disabled persons."*

*"...Youth ages 12-17 - A signed parent authorization for is required to participate in a City sponsored Youth Volunteer program."*

- Comments:**
- 3-1. Background Checks: The Museum's Volunteer Coordinator (employed by the Guild, not the City) is responsible for deciding which volunteers will require background checks. Her current practice is to only do background checks on individuals she determines will work alone with children. We found that 69 (or 93%) of the 74 volunteers who potentially had contact with minors or the disabled had not been background checked.

We also noted that some volunteers have access to City computer systems and/or work alone with Museum artifacts. Although the full fingerprint-based background checks may not be required for these individuals, the City does offer a low cost web-based background check that may provide additional protection for the City when volunteers work with valuable City assets or have access to City computer systems.

- 3-2. Parental Consent: None of the 26 volunteers under age 18 have been required to submit the required parent authorization form.

- Recommendations:**
- 3-1. Management should require the Volunteer Coordinator to background check all volunteers who have contact with minors or the disabled; and should determine whether any other volunteer positions should be subject to the web-based background check.
  - 3-2. Management should require the Volunteer Coordinator to obtain parental authorization forms for all volunteers under age 18.

**Management  
Response:**

3-1. Agree  
Implementation plan: Implement immediately.  
Implementation Date: 3/31/2013

3-2. Agree  
Implementation plan: Implement immediately.  
Implementation Date: 3/31/2013

#### **CAP#4: Financial Controls Need Improvement**

- Observations:**
- 4-1. Greater controls are needed with regard to the donation box located at the Museum's front desk.
  - 4-2. Activity associated with certain promotional passes was not tracked to ensure revenue was received in accordance with the contract.
  - 4-3. Credit card information is recorded on paper forms by Education personnel and is not effectively redacted.
- Criteria:**
- 4-1. Management Policy 210 (Cash Handling) requires that cash be protected from loss.
  - 4-2. Revenue payable to the City should be tracked and reconciled to actual amounts received.
  - 4-3. The Payment Card Industry Data Security Standard (PCI DSS) requires the City to limit the creation of sensitive paper documents regarding credit card transactions; and to effectively redact credit card numbers written on paper documents when no longer needed.
- Comments:**
- 4-1. Donation Box: Although the donation box belongs to the Foundation, the controls in place to protect it should be the same as if it belonged to the City.
  - 4-2. Promotional Passes: The Museum entered into an agreement with a vendor that sells passes valid for admission to multiple venues in the Phoenix Metro area, including the Arizona Museum of Natural History. The agreement grants the Museum a portion of the pass sales revenue, but does not provide the Museum with a means to verify that the correct amount was received. Management emphasized the marketing benefits associated with the passes, but did not ensure that controls were in place to monitor the associated revenue.
  - 4-3. Credit Card Data: The Payment Card Industry Data Security Standard (PCI DSS) requires the City to limit the creation of documents containing credit card data, and fully redact credit card numbers written on documents when no longer needed. The Museum's Education staff members manually write credit card information on registration forms, and use a marker to mask this information after it is entered into the computer system. However, the numbers remain visible when the documents are scanned.
- Recommendations:**
- 4-1. The Museum should improve controls related to the Foundation's donation box.
  - 4-2. In the future, if the Museum enters into a contract that provides

revenue on the basis of another entity's sales, the contract terms should require that entity to provide an accounting of those sales. In addition, Museum administrative staff members should implement procedures to monitor such contracts for compliance.

- 4-3. Management should prohibit Education staff from manually recording credit card numbers on paper forms. These payments should be entered directly into the computer system, or the calls should be transferred to the front desk staff for processing. Any credit card information written on registration forms (i.e. by customers) should be fully and effectively redacted or destroyed.

**Management  
Response:**

4-1. Agree

Implementation plan: Implement immediately.

Implementation Date: 2/28/2013

4-2. Agree

Implementation plan: Implement immediately.

Implementation Date: 2/28/2013

4-3. Agree

Implementation plan: Implement immediately.

Implementation Date: 2/28/2013