



AUDIT, FINANCE & ENTERPRISE COMMITTEE

April 12, 2012

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 12, 2012 at 9:00 a.m.

COMMITTEE PRESENT

Alex Finter, Chairman
Dina Higgins
Scott Somers

COMMITTEE ABSENT

Christopher Brady, Ex Officio

STAFF PRESENT

Debbie Spinner

1. Items from citizens present.

There were no items from citizens present.

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

Budget Director Candace Cannistraro displayed a PowerPoint presentation (**See Attachment 1**) highlighting the FY 2012/13 utility rate recommendations. She explained that while each utility inside the Enterprise Fund operated as a separate business the Enterprise Fund itself was managed as a whole. She said that this allowed staff the ability to balance and smooth rate adjustments from one year to the next. (See Page 2 of Attachment 1)

Ms. Cannistraro briefly highlighted some of the significant adjustments made this past year that will have an effect on the utility rates as follows:

- Bond restructuring decreased current debt service payments
- Right-sizing of Capital Improvement Program(CIP) for anticipated growth
- Estimated debt service payments of future bond issuance structured to minimize the peak debt load

Ms. Cannistraro stated that last year it was anticipated that staff would be requesting rate increases for gas, water, wastewater, solid waste and district cooling services. (See Page 4 of Attachment 1) She reported that as a result of the adjustments that were made staff was proposing a rate change of 0% across the board for all utilities.

Ms. Cannistraro discussed pending legislation related to the Arizona Department of Water Resources (ADWR) pass-through fee that was put into place two years ago. She explained that Senate Bill 1288 called for the repeal of the statutory authority of the ADWR to impose an assessment on cities and towns. She stated that if this legislation were passed staff would be recommending that the Council repeal the City's ADWR pass-through fee. (See Page 5 of Attachment 1)

Discussion ensued relative to the possible rescinding of the .41¢ ADWR pass-through fee.

Ms. Cannistraro briefly outlined the FY 2012/13 Utility Rate Consideration Schedule and said that the resolutions and ordinances would be introduced on June 4th.

City Manager Christopher Brady commented that some specific types of water rate changes had been proposed.

Director of Water Resources Kathryn Sorensen addressed the Committee and said that staff was recommending that the water rate for commercial reclaimed water service be eliminated. She advised that the City does not have any customers utilizing this rate schedule and it was not anticipated that there would be any in the future.

Mr. Brady explained that the commercial reclaimed water rate was established in anticipation of Waveyard, which would have consumed a large portion of reclaimed water.

Ms. Sorensen said that the reclaimed water rate would only apply to an entity that would be using reclaimed water for a long period of time. She added that it was not anticipated that the City would have a need for this rate any time in the near future.

Ms. Sorensen stated that the City of Mesa does not have an extensive "purple pipe" system through which reclaimed water is delivered to individual homes or businesses. She advised that the City had instead invested in some large-scale reclaimed water projects such as:

- The Granite Reef Underground Storage Project (GRUSP) with the Salt River Pima-Maricopa Indian Community
- Exchange of reclaimed water for Colorado River water with the Gila River Indian Community

Ms. Sorensen reported that staff would continue to research other ways in which reclaimed water could be utilized as an amenity in the City.

In response to a question from Chairman Finter, Ms. Sorensen explained that staff had managed to create a positive relationship, as it relates to water, with the Salt River Pima-Maricopa Indian Community. She said that discussions were going well and she was optimistic that the City would have a long-term agreement with both communities.

Responding to a question from Committeemember Somers, Mr. Brady explained that a schedule and overall summary of the Enterprise Fund was included in the Council packet. He reported that it had been determined that in the first 5 years following the restructuring the City would realize an estimated \$60 million in savings. He said that the restructuring lowered the overall debt service and has enabled staff to predict future debt.

Mr. Brady briefly touched upon some of the factors that must be taken into consideration when predicting debt out into the future, such as:

- The current obligations for debt
- Debt that has been authorized through a bond election and could be sold in the future
- Future capital needs over a 5-year period

Mr. Brady said that after next year there could be a slight rate increase. He also said that the City had numerous CIP projects coming up, therefore, a bond election would be held in 2013 or 2014.

Mr. Brady advised that staff would negotiate the best price so that natural gas customers would pay less in the future.

In response to a series of questions from Vice Mayor Somers, Mr. McRae explained that there are floor and ceiling prices as well as discounts off the market index for natural gas. He said if the price for natural gas falls below the floor price and stays there for a period of time staff would approach the supplier and negotiate a lower price. He added that the City's prices for natural gas are below that of other natural gas utility companies.

Chairman Finter remarked that the attachments and the presentation were enlightening and easy to read.

Mr. Brady said that staff has been trying to provide the Council with meaningful information instead of large amounts of documents that are sometimes difficult to interpret. He also said that more details regarding the City's economic investment projects would be provided when that department's budget was brought forward.

Chairman Finter commented that the City had forecasted some significant utility rate increases for this year however, as a result of the adjustments that have been made utility rates would not be increased and taxpayers would be able to see the savings in their pockets.

Mr. Brady stated that some income is expected that will help to replenish and take the pressure off the Enterprise Fund overall.

Ms. Cannistraro advised that staff would be coming back to the Committee with a Notice of Intent that would need to be adopted. She said that the Notice of Intent lists all of the different utilities that would be adopting a 0% adjustment.

Chairman Finter thanked staff for the presentation.

(Ex Officio Chris Brady left the meeting at 9:19 a.m.)

2-b. Hear a presentation, discuss and provide direction on the following audits:

1. Emergency Management – Fire
2. PCI – DSS

City Auditor Jennifer Ruttman briefly outlined the objectives of the Fire Departments – Emergency Management (EM) audit (**See Attachment 2**) as follows:

- Verify EM compliance with federal and state grant requirements
- Verify compliance with City and departmental policies
- Evaluate internal controls over grant procurements, reimbursements and asset management
- Ensure that pharmaceuticals and other perishable items are disposed of appropriately

Ms. Ruttman reported that inadequate internal controls and insufficient oversight in prior years resulted in non-compliance with several grant requirements, such as:

- Required physical inventories of grant funded assets had not been conducted
- Asset records for older capital equipment were not maintained
- Process controls failed to prevent/detect an item being purchased without following grant purchasing procedures
- Grant funded assets had not yet been used for its intended purpose
- Reimbursement requests, submissions for grant extensions and required reporting of grant-funded purchases were not completed in a timely manner
- EM grant related processes and procedures had not been documented

Ms. Ruttman advised that staff has recommended the following corrective actions:

- Ensure that all grant funded capital assets are recorded in the Asset Tracker database
- Review and supplement Standard Operating Procedures
- Develop and implement additional management tools to track essential activities

Deputy Battalion Chief Cori Darnell stated that the EM campus located on Center Street can be overwhelming. She said that part of the equipment located in the warehouse would only be used in the event of a mass casualty. She also said that the majority of the equipment purchased with Homeland Security grants had been utilized in emergency situations.

Ms. Darnell advised that several years ago the Fire Department obtained a fulltime Warehouse Manager, purchased a tracking system and began tracking the equipment starting with the most recent items. She stated that a plan was now in place and that all of the items should be entered and updated in the tracking system within the next six months.

Chairman Finter remarked on the Fire Department's excellent reputation and attitude toward getting the job done.

Assistant Fire Chief Dan Stubbs stated that the audit was accurate and fair and did not come as a surprise to the department. He provided a brief history of the EM operations and said that after 9/11 the federal government wanted the nation to have a better all-hazards response too disasters or terrorist acts. He said the focus was on equipment and the department was receiving money and equipment faster than it could be inventoried.

Chief Stubbs said that changes have been made and staff would be considering the following objectives before purchasing any equipment:

- What are the needs of the community
- How will the equipment be utilized
- How will staff be trained to use the equipment

Chief Stubbs stated that funding for the Community Emergency Response Team (CERT) program had been diverted to equipment. He said that it has since been determined that CERT training is more important than purchasing equipment that may never be deployed. He advised that a plan was now in place and that staff would focus on correcting the issues outlined in the audit.

In response to a question from Committeemember Higgins, Chief Stubbs explained that the department had been meeting its obligations and had passed several federal audits. He reported that losing a large portion of the staff from the financial and EM areas caused the department to fall behind on some of the grants. He said the department was back on track and changes would be made to rectify the problems.

Ms. Ruttman commented that personnel issues do arise however, in this instance, there were no procedures in place and staff became overwhelmed by the amount of work. She said that this experience demonstrated the importance of cross-training and having written procedures in place.

Ms. Darnell advised that along with having a process in place, the department obtained employees who have experience with grants. She also advised that the department had begun working on succession plans.

Chairman Finter commented that it was good to hear that a plan was in place.

In response to a question from Chairman Finter, Chief Stubbs explained that many of the recommendations had already been put into place and that the remaining projects should be completed by December. He advised that the fire department recently hired Jason Taylor, who came to them from the City Auditor's office, and will be working on the Southwest Ambulance project.

Ms. Ruttman said that there was so much money coming in that the department did not know what to do with it all. She stated that she was confident that moving forward the department would have a plan in place before they acquired assets.

Chairman Finter remarked that the Council holds the City Auditor at high esteem and wants to ensure that she receives full cooperation from staff.

Committeewoman Higgins commented that the audit system allows each department to improve and be the best that it can be.

Ms. Ruttman noted that the fire department has always been very cooperative and willing to address any problems.

Chairman Finter thanked Chief Stubbs and his staff for their efforts.

Ms. Ruttman briefly reviewed the Annual Credit Card Security report (**See Attachment 3**) which is an assessment of the City's efforts to protect customers' credit card information, as required by the Payment Card Industry's Data Security Standard (PCI DSS). She said the purpose of the audit was to determine if various City departments complied with the following:

- Adequately secure existing documents
- Adequately secure sensitive information
- Develop specific credit card handling procedures
- Ensure that employees are trained to handle credit card information adequately

Ms. Ruttman reported that since the first review in 2008, most departments had been compliant. She said that moving forward the goal would be to maintain compliance in the following areas:

- Check and change credit card terminal passwords
- Ensure proper document retention
- Ensure that vendors that handle credit card information are fully vetted for PCI DSS compliance

In response to a question from Chairman Finter, Ms. Ruttman explained that the purpose of the audit was to analyze department procedures. She said that staff was not looking for any type of fraud or misuse and that ultimately the procedures were designed to prevent fraud.

Chairman Finter thanked Ms. Ruttman for her efforts.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 9:43 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 12th day of April 2012. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

bdw
(attachments – 3)

City of Mesa

FY 12/13

Utility Rate Recommendations

Audit, Finance & Enterprise Committee

April 12, 2012

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%

Changes in Debt Service Model

- Pending bond restructure decreases current debt service payments.
- Right-sizing of capital improvement program for anticipated growth.
- Estimated debt service payments of future bond issuance structured to minimize the peak debt load.

Proposed Rate Adjustments

	Prior Year	
	FY 2012/13	FY 2012/13
	Projection	Proposal
Electric	0.0%	0.0%
Gas	2.5%	0.0%
Water	6.8%	0.0%
Wastewater	5.8%	0.0%
Solid Waste	1.4%	0.0%
District Cooling	3.0%	0.0%

Pending Legislation

- Senate Bill 1288 calls for the repeal of the statutory authority of the Arizona Department of Water Resources (ADWR) to impose an assessment on cities and towns to fund departmental operations.
- If and when this action becomes law, staff will recommend that the City Council repeal the City's ADWR pass-through fee.

Schedule for FY 12/13 Utility Rate Consideration

- **May 21** – Adopt Utility Rate Notice of Intention
- **June 4** – Introduce Utility Rate Ordinances
- **June 25** – City Council Action on Utility Rates
- **July 31** – Effective date for Utility Rate changes





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

Date: April 5, 2012
To: Audit, Finance & Enterprise Committee
From: Jennifer Ruttman, City Auditor
Subject: Audit of Fire Department Emergency Management Division

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed an audit of the Fire Department's Emergency Management Division. The final report is attached. The report includes 2 Corrective Action Plans (CAPs), followed by the Fire Department's response to the recommendations.

We will perform a follow-up review in approximately 1 year, to verify that the planned corrective actions have been implemented effectively.

Please feel free to contact me if you have any questions.

AUDIT REPORT

CITY AUDITOR

Report Date: April 5, 2012

Department: Mesa Fire Department, Emergency Management Division

Subject: Audit of Fire Emergency Management

OBJECTIVES

The objectives of this audit were to:

- Verify compliance with applicable federal and state grant requirements.
- Verify compliance with applicable City and departmental policies.
- Evaluate the adequacy of internal controls over grant procurement, reimbursement and asset management.
- Determine whether pharmaceuticals and other perishable items are adequately monitored to ensure appropriate and timely disposition of expired items.

SCOPE & METHODOLOGY

To accomplish our objectives, we interviewed key personnel; reviewed federal, state and city grant requirements; conducted a physical inventory of sampled items; reviewed grant reporting documentation, invoices, expenses and reimbursement requests; and performed other audit tests as required for ten selected grants from fiscal years 2008 through 2010.

BACKGROUND

The U.S. Department of Homeland Security provides yearly grants to the State of Arizona, for the purpose of funding emergency management programs. The State then provides a portion of these funds to the Mesa Fire Department Emergency Management (EM) Division, as a sub-grantee, to purchase equipment, medical supplies, training, and other necessities for the EM program.

As a sub-grantee, Fire EM is subject to numerous federal, state and city grant requirements, including but not limited to the following:

- Detailed property records must be maintained and reported for the lifetime of each capital asset, from acquisition through disposition.
- Physical inventories of capital assets must be conducted and reconciled to asset records at least once every two years.
- Assets must be used only in the program for which they were acquired.
- Grant funds must be utilized for identified needs that fall within specified planning, equipment, training and management/administrative categories.

CONCLUSION

We found that EM grant funded purchases were consistent with those allowable under the grants. In addition, grant funded pharmaceuticals are adequately secured and, along with other perishable purchases, are being monitored and removed from active service appropriately. However, inadequate internal controls and insufficient oversight in prior years have resulted in non-compliance with several grant requirements. For example:

- Required physical inventories of grant funded assets have not been conducted.
- Asset records for older capital equipment are not being maintained and some are incomplete, which has resulted in an inability to locate certain assets.
- Process controls failed to prevent and/or detect an item being purchased with grant funds without following the grant purchasing procedures.
- A grant funded asset purchased in January 2006 has not yet been used for its intended purpose.
- In some cases, reimbursement requests, submissions for grant extensions, and required reporting of grant-funded purchases were not completed in a timely manner.
- The majority of EM's grant related processes and procedures have not been documented.

Therefore, while significant improvements have been realized within the past year, continued effort is needed to improve asset management and ensure full compliance.

RECOMMENDATIONS

- All grant funded capital assets should be accurately recorded in the EEMS Asset Tracker database. Missing data should be researched and added to the database.
- Standard Operating Procedure (SOPs) should be developed and followed for all EM grant-related activities, including those at the WMD warehouse, to clearly disseminate expectations, minimize disruptions of essential operations during employee absences and ensure compliance with grant requirements. These procedures should:
 - Require that physical inventories of grant funded assets be conducted at least once every two years.
 - Ensure accurate and complete tracking of grant funded assets.
 - Identify grant funded assets that are not being utilized for their intended purpose.
 - Prevent and/or detect purchases that circumvent established procedures.
- Fire EM should consider developing and implementing additional management tools, such as checklists to track essential activities and associated due dates, to ensure timely submission of reimbursement and/or extension requests and other required reports.

For detailed findings & recommendations, please see the attached Corrective Action Plans (CAPs).

CAP #1: Improve Grant Funded Asset Management

Observations:

1. A physical inventory and associated reconciliation of grant funded asset records has not been completed, although federal guidelines require this to be done at least once every two years.
2. Asset records for older grant funded capital equipment have not been maintained, and some are incomplete.
 - a. Capital assets purchased with 2003 and prior grant funds were recorded in a database that is no longer maintained. Therefore, disposal information is not recorded when the assets are retired.
 - b. The acquisition date, the location of the asset, and/or the serial number were not recorded for 244 out of 604 grant funded capital assets purchased with 2007 or prior grant funds. Some of these assets could not be located due to the lack of this information.
3. A grant funded plotter, which was purchased in 2006 for more than \$8,300, has not yet been used for its intended purpose. This asset was intended for use at a new Emergency Operations Center (EOC); however, the new EOC was never built. The existing EOC had a usable plotter so the newly purchased plotter has been stored in the WMD Warehouse for the past six years, unused. As of February 2012, plans were being made to install and use the plotter at the existing EOC.
4. There are no EM Standard Operating Procedures (SOPs) that detail the activities necessary to manage grant funded assets.

Comments:

Failure to comply with any grant requirement can result in various enforcement actions, from temporary withholding of reimbursement, to terminating a grant program and/or withholding future grant awards.

Conducting physical inventories, in addition to being required by the grants, provides awareness of equipment movement or potential misappropriation and aids in keeping property records accurate.

The 2006 purchase of a plotter for an EOC that had not yet been constructed is indicative of the lack of controls in place over EM grant funded purchases at that time. While current purchases are more closely scrutinized, this is a clear example of why better controls were needed to ensure the most responsible use of taxpayer dollars.

Documented processes and standard operating procedures are important controls, not only to ensure compliance with grant

requirements, but also to ensure efficiency and continuity of operations.

- Recommendations:**
1. Fire EM should develop and follow a schedule for conducting physical inventories of grant funded assets at least once every two years. As part of each scheduled inventory:
 - a. Asset records should be reconciled to physical inventory.
 - b. Discrepancies and resulting adjustments should be reviewed by senior management, and any irregularities or other anomalies should be addressed and documented.
 - c. All documentation should be retained in accordance with records retention guidelines.
 2. All grant funded capital assets should be accurately recorded in the EEMS Asset Tracker database. Missing data, such as serial numbers, locations (if applicable), acquisition dates, etc., should be researched and added to the database.
 3. Fire EM should develop a procedure to ensure accurate tracking of grant funded assets that have the potential to be disposed of through methods outside of the Fire Department (i.e. computers that may be cycle-replaced by ITD), to ensure that disposal details are captured in accordance with federal and state grant guidelines.
 4. Fire EM should develop a procedure that identifies grant funded assets that are not being utilized for their intended purpose.
 5. Standard Operating Procedure (SOPs) should be developed for all EM grant-related activities (including those at the WMD warehouse), to ensure efficiency and continuity of operations as well as compliance with grant requirements.

CAP #2: Improve Departmental Procedures to Strengthen Management Oversight

Observations:

1. Prior lack of management oversight allowed for untimely reimbursement requests and submissions for grant extensions.
 - a. While AZ DOHS requires that grant reimbursement requests be processed at least quarterly, 7 of 38 sampled expenditures involved reimbursement requests that were submitted between 4 and 11 months after the expenditures were incurred.
 - b. Extension requests for 3 out of 8 grants were submitted between 4 and 8 months late. AZ DOHS requires that extension requests be submitted 30 calendar days prior to the end of the award period.
2. The grant closure process was incomplete, resulting in untimely reporting of property purchased with grant funds for 5 of the 10 grants tested. It should be noted, however, that AZ DOHS provides conflicting instructions regarding specifically when this form is to be submitted within the grant closure process, which can cause confusion as well as duplicative work.
3. One out of 21 sampled purchases circumvented the Fire EM grant procurement process without detection. An individual who does not typically purchase grant funded equipment completed a purchase using grant funds without following the grant purchasing process. At the time of the purchase, the process did not include downstream controls to identify and question the validity of the purchase, or to ensure it was recorded in the EM database. While grant funds had been allotted for this specific purchase, there was no awareness by Fire EM that the purchase had occurred.

Comments:

Under new management, EM now conducts monthly grant budget reviews involving both EM and Management Services (fiscal) personnel, providing improved oversight of all open EM grants. Expenditures, revenues, and remaining budgeted dollars are reviewed in detail. However, additional efforts are needed to prevent and/or detect instances of non-compliance with requirements.

Recommendations:

1. Fire EM and Management Services staff members should continue conducting monthly grant budget reviews. Fire EM should also consider developing a checklist containing essential activities and associated due dates, or other management oversight tools, to ensure compliance with grant requirements.
2. The activities necessary to complete the grant closure process should be documented in a Standard Operating Procedure (SOP) to clearly disseminate expectations, minimize disruptions of

essential operations during employee absences and ensure compliance with grant requirements.

3. The grant procurement process should be updated to include controls designed to prevent and/or detect purchases that circumvent established procedures.

Auditor
 Fire Emergency Management
 Response to Audit Recommendations

Response Form

provide your response to each recommendation below and return to the City Auditor's office. Your responses will be used as the basis for a follow-up audit in approximately one year.

Recommendation	Department's Response
<p>1-1. Fire EM should develop and follow a schedule for conducting physical inventories of grant funded assets at least once every two years. As part of each scheduled inventory:</p> <ul style="list-style-type: none"> a. Asset records should be reconciled to physical inventory. b. Discrepancies and resulting adjustments should be reviewed by senior management, and any irregularities or other anomalies should be addressed and documented. c. All documentation should be retained in accordance with records retention guidelines. 	<p>Physical inventory audits for all capital assets will be completed every 2 years. The first inventory will be completed by Dec. 2012. Any discrepancies between the physical inventory and the asset records will be reviewed and addressed by management. Fire EM will follow federal and city guidelines for record retention and will add those guidelines to EM SOP's.</p>
<p>1-2. All grant funded capital assets should be accurately recorded in the EEMS Asset Tracker database. Missing data, such as serial numbers, locations (if applicable), acquisition dates, etc., should be researched and added to the database.</p>	<p>All grant funded capital assets will be added to the EEMS asset tracker database. This will be completed by Dec. 2012. Missing data will be researched and added to the data base.</p>
<p>1-3. Fire EM should develop a procedure to ensure accurate tracking of grant funded assets that have the potential to be disposed of through methods outside of the Fire Department (i.e. computers that may be cycle-replaced by ITD), to ensure that disposal details are captured in accordance with federal and state grant guidelines.</p>	<p>EM SOP's will be written to specifically document the Homeland Security Grant asset disposal process in accordance with Federal and City requirements. Emergency Management will work with Fire ITD and Resource Management to integrate our databases to share information between different departments.</p>
<p>1-4. Fire EM should develop a procedure that identifies grant funded assets that are not being utilized for their intended purpose.</p>	<p>MFD EM SOP's will be drafted which documents the Homeland Security Grant asset utilization process. Assets not being utilized will be evaluated and disposed of, as needed, following federal and city guidelines.</p>
<p>1-5. Standard Operating Procedure (SOPs) should be developed for all EM grant-related activities (including those at the WMD warehouse), to ensure efficiency and continuity of operations as well as compliance with grant requirements.</p>	<p>MFD EM SOP's will be drafted to clearly identify roles, responsibilities and process used for grant management and the WMD warehouse. This will be completed by Dec. 2012.</p>
<p>2-1. Fire EM and Management Services staff members should continue conducting monthly grant budget reviews. Fire EM should also consider developing a checklist containing essential activities and</p>	<p>MFD EM will conduct Quarterly budget review meetings. MFD EM will also conduct quarterly meetings with WMD Manager to review asset tracking database and equipment entry. This will begin immediately.</p>

Director
 Fire Emergency Management
 Response to Audit Recommendations

Recommendation	Department's Response
<p>associated due dates, or other management oversight tools, to ensure compliance with grant requirements.</p>	
<p>2-2. The activities necessary to complete the grant closure process should be documented in a Standard Operating Procedure (SOP) to clearly disseminate expectations, minimize disruptions of essential operations during employee absences and ensure compliance with grant requirements.</p>	<p>MFD Management Services Division has drafted SOP's that clearly disseminates expectations and lines out essential responsibilities. This will assist in the continuation of work flow regardless of personnel. Management Services is also cross training an additional Financial Specialist to ensure continuity of essential operations. The SOP's will be implemented in Sept. 2012.</p>
<p>2-3. The grant procurement process should be updated to include controls designed to prevent and/or detect purchases that circumvent established procedures.</p>	<p>MFD EM has drafted and is now following a Homeland Security Grant procurement process flowchart. This document will be added to our EM SOP's and will be reviewed for compliance at our quarterly grant budget review meetings.</p>



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

Date: April 5, 2012
To: Audit, Finance & Enterprise Committee
From: Jennifer Ruttman, City Auditor
Subject: Annual Credit Card Security Review

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed our Annual Credit Card Security Review. The final report is attached.

Please feel free to contact me if you have any questions.

FINAL REPORT

CITY AUDITOR

Report Date: April 5, 2012
Department: Citywide
Subject: Annual Credit Card Security Review

OBJECTIVES

Our annual credit card security review is an assessment of the City's efforts to protect customers' credit card information, as required by the Payment Card Industry's Data Security Standard (PCI DSS). This review focused on the credit card handling activities that take place outside of the City's IT infrastructure. There are 24 credit card acceptance sites across various departments citywide. We conducted this review to determine whether these departments:

1. Limit the creation of sensitive paper documents (e.g., receipts, payment authorization forms, etc.) and adequately secure existing documents.
2. Use only systems and vendors that have been approved by the Information Technology Department (ITD) or Accounting Services Division to process and store sensitive information.
3. Develop specific credit card handling procedures.
4. Ensure that individuals who handle credit card information are adequately screened and trained.

SCOPE & METHODOLOGY

To accomplish our objectives, we interviewed staff members, observed operations and processes, reviewed document inventories from the City's offsite storage vendor, and reviewed attendance records for the City's credit card handling training class.

BACKGROUND

As a merchant that accepts credit cards, Mesa is required to comply with the PCI DSS. Failure to comply with this standard could result in the credit card companies levying fines or prohibiting the City from accepting credit card payments.

Since most of the PCI DSS requirements center on information technology, ITD launched a project in 2006 to bring the City into compliance. ITD adopted the PCI Security Council's prioritized approach for ensuring compliance. They have implemented the most critical requirements for protecting the City's electronic credit card data, and are now focusing on the lower priority goals. Another key department involved with ensuring PCI DSS compliance is the Accounting Services Division, which manages the City's merchant accounts, continually develops Management Policy 212 – Credit Card Handling, and trains individuals on PCI DSS requirements and credit card handling procedures.

CONCLUSION & RECOMMENDATIONS

For the protection of the City and its customers, specific findings and recommendations are not detailed in this report. However, the following is a general summary of what we found.

Since our first review in 2008, most departments have implemented our recommendations. Further, those departments that had been continuously noncompliant in prior years have significantly improved. We made some additional recommendations this year, the goal of which was to ensure that departments maintain compliance moving forward. For example:

- Credit card terminal passwords (which limit access to credit card numbers or refunds) should be periodically checked and/or changed.
- Stored documents with credit card numbers should be redacted; and should be destroyed when they reach the end of their retention period (typically 3 years).
- Vendors that handle credit card information should be fully vetted for PCI DSS compliance before they are hired.

Specific recommendations were addressed to the respective departments, and have all been accepted and implemented. We will perform this review again in one year, to ensure their implementation has been successful and sustained.