



AUDIT, FINANCE & ENTERPRISE COMMITTEE

April 7, 2014

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 7, 2014, at 3:30 p.m.

COMMITTEE PRESENT

Alex Finter, Chairman
Dave Richins

COMMITTEE ABSENT

Scott Somers
Christopher Brady, Ex Officio

STAFF PRESENT

Dee Ann Mickelsen
Debbie Spinner
Alex Deshuk

Chairman Finter excused Committeemember Somers from the entire meeting.

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation, discuss and provide a recommendation on the proposed Energy Resources Capital Improvement Program.

Energy Resources Department Director Frank McRae introduced Deputy Energy Resources Director Bill Norton, Electric Utility Deputy Director Marty Hunter and Management Assistant I Robert Baer, who were prepared to assist with the presentation. He also recognized other staff members who were present in the audience.

Mr. McRae stated that utilities, such as electric and gas, are very capital-intensive commodities. He explained that unlike other utility companies, the City of Mesa's Energy Resources Department outsources the generation of electricity and its transmission over long distances.

Mr. McRae displayed a PowerPoint presentation (**See Attachment 1**) and reported that in 2010, the Energy Resources Department received a bond authorization in the amount of \$15.9 million. He indicated that by the Spring of 2015, he would anticipate that the authorization would be completely expended. He also noted that with regard to the Department's Capital Improvement Program (CIP) projects, staff has prioritized the expenditure of those dollars based on safety, liability and efficiency. He added that the project expenditures are categorized based on the replacement of aging infrastructure and growth in the community.

Mr. Hunter provided an extensive analysis of the FY 13/14 CIP projects that have been or will be completed shortly. (See Pages 4 and 5 of Attachment 1) He pointed out that the 4kV to 12kV circuit conversion projects will eliminate the remaining 4kV substations in the City. He also reviewed the FY 14/15 CIP projects (See Page 6 of Attachment 1), which include underground conversions on Mesa Drive between 8th Avenue and Main, Pima Road between University and 6th Street and Orange Road between University and 6th Street.

Responding to a question from Committeemember Richins, Mr. McRae clarified that when the City de-energizes and reclaims the 4kV substations, the scrap equipment will be sold, with the proceeds used to fund the conversion of the substations to pocket parks. He also stated that the conversion of the 4kV substation at Extension Road to a pocket park will be partially funded by the 2012 Parks Bond authorization.

Mr. Hunter continued with the presentation and discussed the 2014 Bond Authorization infrastructure replacement and growth projects. (See Page 7 of Attachment 1)

Committeemember Richins commented that he has received nothing but positive feedback from the developers of projects such as Encore on First and Save the Family. He stated that City staff was recognized for their professionalism and hard work in locating the infrastructure at the various sites, installing reliable service and creating aesthetically-pleasing surroundings.

Mr. McRae thanked Committeemember Richins for his comments and noted that the Energy Resources Department works in concert with other City departments to ensure that the projects are completed in a successful and timely manner.

In response to a question from Committeemember Richins, Mr. McRae verified that staff was working to ensure that the pocket parks would require as little maintenance as possible.

Committeemember Richins remarked that the development of the pocket parks provides a unique opportunity to create more gathering spaces in the community, especially in central and west Mesa.

Chairman Finter recounted that years ago, Committeemember Richins proposed the idea of the City creating pocket parks and stated that it was fun to see the concept come to fruition.

Mr. McRae provided a short synopsis of the CIP projects for gas services and reported that in 2010, the City received voter approval for \$48.4 million in bond authorization. He stated that by the Spring of 2015, staff would estimate that \$6.1 million will remain in authorizations. He cautioned, however, that in the event of a high volume gas user, such as the development of a Compressed Natural Gas (CNG) station, the extension of high-pressure steel mains could easily cost \$1 million.

Mr. Norton discussed the FY 13/14 CIP gas projects that have been completed in the past few years. (See Page 9 of Attachment 1) He also reviewed the proposed FY 14/15 CIP projects, as well as the 2014 Bond Authorization infrastructure replacement and growth projects. (See Pages 10 and 11 respectively of Attachment 1)

Chairman Finter thanked staff for the presentation.

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

Office of Management and Budget Director Candace Cannistraro introduced Budget Administrator Jared Askelson, who was prepared to assist with the presentation.

Ms. Cannistraro displayed a PowerPoint presentation (**See Attachment 2**) and reported that although each utility within the Enterprise Fund is operated as a separate business center, the Fund itself is managed as a whole. She explained that the combined ending reserve balance will adhere to the adopted financial policy of at least 8% to 10% per year over the forecast period. She also stated that the reserve balance can be used to “smooth” the rate adjustments on a year-to-year basis.

Ms. Cannistraro advised that capital investment is necessary in order to strategically position the City for future economic development and residential growth (i.e., water and wastewater infrastructure). She commented that the Enterprise Fund is affected by similar inflationary pressures as the General Fund. She cited, by way of example, that the cost of fuel and parts for the City’s fleet of vehicles has caused inflationary pressures in the Solid Waste Department. She added that the Department was in the process of converting its fleet to Compressed Natural Gas (CNG) in order to “cap off” some of those expenses in the future.

Ms. Cannistraro briefly reviewed additional pressures in the Enterprise Fund, such as the Employee Benefit Trust Fund and increased Workers’ Compensation contributions. (See Page 4 of Attachment 2) She said that the total transfer amount from the Enterprise Fund is recommended to increase based on inflationary pressures.

Ms. Cannistraro provided a short synopsis of various water projects that have been or are soon to be completed. (See Page 5 of Attachment 2) She pointed out that the completed projects were funded by bonds and stated that the debt service on the bonds, which is being paid off, is included in the forecast. She also discussed the upcoming Water CIP projects that will be funded through the proposed November, 2014 Bond Election. (See Page 6 of Attachment 2) She further commented that the annual debt service costs are expected to increase by FY 19/20.

Discussion ensued relative to the process by which the water utility rate is structured; that staff considers the service charge, which is a fixed amount, as opposed to a variable amount based on consumption (See Page 8 of Attachment 2); that water consumption is variable based on factors such as the economy and the climate; that the City’s water bills have increased over time, but water consumption per account has decreased; that per the Council’s direction, the service charge revenue should be targeted at 40% of expenditures; that such revenue is currently at 33%; that staff would propose a service charge increase of \$3.00 per month for the average resident, with a 3.5% increase on all other rate components; and that the average water utility customer’s bill would increase from \$39.69 to \$43.32.

Committeemember Richins commented that one of the issues that the City encounters with part-time customers is that when they are not living in Mesa, they want their water shut off and to receive a zero bill for the months that the water service is off. He noted, however, that those individuals forget that in order for them to receive water when they return to Mesa, the water lines must be hooked to their homes and they “must pay for that privilege.”

Committeemember Richins suggested that it would be appropriate for the City to charge a rate for the infrastructure and another rate for the water. He stated that the City “needs to get real” about the cost of water in Arizona. He added that he would urge the City to stop blending water rates and infrastructure charges and “get smart about it.”

Committeemember Richins asked that staff provide the Committee an analysis of an average monthly water bill if the cost for the water was “taken out” and a calculation was performed for the cost of the infrastructure, the debt load associated with such infrastructure, and future infrastructure costs.

Chairman Finter commented that Salt River Project (SRP) has a service charge or a base rate and stated that he would assume it was based on the same rationale that staff was using in their presentation today. He also noted that the City has tiered systems and said that the pumped water in east Mesa is actually much more expensive than the surface water that is used in the west side of the community.

Committeemember Richins stated that if staff and the Council are going to engage in a discussion concerning water rates this year, he suggested that staff also collect data regarding the cost of Central Arizona Project (CAP) water and SRP water, and consider whether the water bill of a person residing in an SRP service territory should be less. He pointed out that he does not believe he has ever received information that reflects what it costs to live in the different service areas.

Ms. Cannistraro responded that as staff goes through the upcoming budget presentations, they would be happy to research Committeemember Richins’ request. She referred to Page 8 of Attachment 2 and clarified that it was staff’s recommendation to make more of an adjustment to the service charge rather than the variables in order to move the process forward in that direction.

Ms. Cannistraro continued with her presentation and reported that a new rate is being proposed for large turf facility untreated water service. She explained that such a rate would address the development of several new golf courses that will require water service. She stated that in FY 14/15, staff anticipates that the new rate will generate \$125,000 in revenue and increase to \$250,000 annually in the future.

Ms. Cannistraro further spoke regarding the various wastewater projects that have been or are soon to be completed this year, as well as the Wastewater CIP projects that will be included in the proposed 2014 Bond Election. (See Pages 12 and 13 respectively of Attachment 2) She also discussed the wastewater utility rate recommendations (See Page 14 of Attachment 2), including a service charge increase of \$2.00 per month. She added that the average wastewater utility customer’s bill will increase from \$25.53 to \$27.96.

Ms. Cannistraro, in addition, reported that with respect to the City’s electric and gas rates, the commodity costs are passed through directly to the customers based on the cost of the electricity. She explained that the City compares its rates with SRP’s since City electric service is not offered throughout Mesa. She noted that staff would propose a monthly service charge of \$10.50 per month as compared to SRP’s comparable rate component of \$17.00 per month.

Committeemember Richins questioned why the City of Mesa does not impose the same \$17.00 monthly service charge as SRP.

Energy Resources Department Director Frank McRae responded that the City's costs that are recovered by the proposed rate component do not equal \$17.00 per month like they do for SRP. He explained that SRP has developed an automated metering system, which is the reason for the higher monthly service charge. He stated that Mesa currently utilizes a manual meter-reading system, the costs of which are lower than for SRP.

Responding to a question from Committeemember Richins, Mr. McRae advised that if the Council directed staff to charge the same rate as SRP, the extra \$6.50 could be used to develop an automated metering program. He acknowledged that there would be a cost savings for the City, but noted that it would also be appropriate to develop similar automated meter reading programs for gas and water. He indicated that since the cost of meter reading would be fairly low when reading three meters as opposed to one, the cost benefit ratio would be somewhat challenged for an automated meter reading system in Mesa's electric service area as compared to what it would be for SRP or Southwest Gas.

Ms. Cannistraro continued with the presentation and discussed the electric utility rate recommendations. (See Page 16 of Attachment 2) She stated that the average residential rate would increase from \$45.19 to \$45.98, not including the pass through electric commodity costs.

Ms. Cannistraro, in addition, reviewed the natural gas utility rate recommendations and reiterated that the commodity costs are passed through directly to the customers. She explained that the annual debt service costs are expected to increase by more than \$2.9 million by FY 19/20. She also noted that the average residential gas customer's bill would increase from \$25.18 to \$26.32, not including the pass through natural gas commodity costs.

Ms. Cannistraro further highlighted the solid waste utility rate recommendations. She said that various issues have impacted the rate, such as the increase in vehicle usage and landfill costs and also the implementation of a new software system to increase productivity and enhance quality service. (See Pages 19 and 20 of Attachment 2) She said that the recommendations for solid waste rates include the following: the 90-gallon barrel rate would increase from \$23.81 to \$25.45; the Mesa Green and Clean fee would be adjusted from \$0.56 to \$0.65; the average residential customer's bill would increase from \$24.37 to \$26.10; the commercial front load rates would increase by an average of 5.9%; and the roll-off rate would increase by 2.9%.

Ms. Cannistraro also displayed charts illustrating the recommended utility rate adjustments, the average residential monthly customer impact and Enterprise Fund reserves. (See Pages 21, 22 and 23 respectively of Attachment 2) She also reviewed the upcoming timeline for the FY 14/15 utility rate consideration. (See Page 24 of Attachment 2)

Committeemember Richins stated that he would prefer that staff provide the water rate data that he requested to the Committee before this item is forwarded on to the full Council.

Ms. Cannistraro responded that based on the complexity of the research being requested, she was fearful that staff may not meet the May 5, 2014 introduction of the ordinance if this matter were delayed and still make a presentation to the Council between now and then.

Committeemember Richins commented that he would be willing to move this item forward to the full Council. He stated that in the meantime, staff could research his request for additional data regarding water rate components and meet separately with him, Chairman Finter and Committeemember Somers to discuss their findings.

Chairman Finter concurred with Committeemember Richins' suggestion.

Chairman Finter thanked staff for the presentation.

2-c. Hear a presentation, discuss and provide a recommendation on the proposed fees and charges for various departments:

Office of Management and Budget Director Candace Cannistraro displayed a PowerPoint presentation (**See Attachment 3**) reflecting the proposed fees and charges for various City departments. She noted that the Engineering fees and charges, which are included in the PowerPoint presentation, will be presented to the Committee at a later date.

Ms. Cannistraro explained that in the interest of time, she would provide an abbreviated summary of the proposed fees and charges. She urged the Committeemembers to stop her at any time during her presentation if they have any questions or concerns.

Ms. Cannistraro discussed the proposed fees and charges as follows:

- Arts and Culture – Staff proposes to implement various rate changes and establish and/or update fee ranges. (See Pages 3 and 4 of Attachment 3)
- Business Services – A new \$2.00 Credit Check Service Fee will cover the cost of the City performing a credit check on a utility customer. This will enable the City to waive a residential deposit for the individual based on the person's credit score.
- Development and Sustainability (Planning and Development Services) – Revision of the Records Request Fee to \$46.00 for one location for the first hour. The fee replaces the non-refundable Research Fee of \$20.00 for a maximum of five items per request. (See Page 6 of Attachment 3)
- Development and Sustainability (Environmental and Sustainability) – Increase the current monthly Environmental Compliance Fee of \$5.38 by \$1.94 to \$7.32 per account in order to cover increased costs. The fee, which is included on the City of Mesa utility bill, funds federally mandated environmental compliance activities such as air quality, stormwater and hazardous waste management. (See Page 7 of Attachment 3)
- Falcon Field Airport – Delete Tiedown Transfer Fee of \$109.00 per transfer.
- Library Services – Minor increases in various fees for items such as holds that are not picked up, earbuds and overdue materials.
- Solid Waste Management – Increase Single Residence Fee from \$185.00 to \$197.00. The fee covers the delivery and cost of barrels for new residential service.
- Transportation – Update fees and deposits charged to contractors that borrow City-owned traffic signal equipment in order to reflect the most current pricing.

Chairman Finter thanked staff for the presentation.

2-d. Updates to the Terms and Conditions for the Sale of Utilities.

Business License and Revenue Collection Administrator Tim Meyer displayed a PowerPoint presentation (**See Attachment 4**) highlighting the proposed updates to the Terms and Conditions for the Sale of Utilities.

Mr. Meyer reported that in 2010, as a result of certain economic conditions, staff sought Council direction with respect to “tightening” the City’s credit policy. He explained that since the economy has improved, staff would propose to offer a few new options to Mesa’s residents.

Mr. Meyer briefly highlighted the proposed changes as follows:

- Increase the amount of time given for another party to take responsibility for an account when the accountholder is deceased from 14 days to 30 days from the time of notification.
- Allow a deposit waiver if the City receives a favorable FICO score from a credit reporting agency.
- Increase the amount of time the City will go back to possibly waive a deposit if the applicant has had service with the City from 18 months to 24 months.
- Reduce the timeframe needed to receive a credit refund for a residential deposit from 36 months to 24 months.
- Automatically credit the deposit to the account if the established criteria have been reached.
- Detail the deposit refund procedure for refunds when no utility account exists to receive a credit. The proposal would outline the manner in which refunds will be credited if a credit card was used or when cash, check or money was used, or any combination thereof.
- Minor housekeeping verbiage changes throughout.

Chairman Finter thanked Mr. Meyer for the presentation.

2-e. Hear a presentation, discuss and provide a recommendation on the following audits:

1. Surplus Property Disposal

City Auditor Jennifer Ruttman displayed a PowerPoint presentation (**See Attachment 5**) and reported that this audit was conducted in order to ensure that the City surplus property disposal process was in compliance with the laws, regulations and City policies that govern such efforts.

Ms. Ruttman explained that the audit determined that there were a few issues with respect to internal controls over the disposal process, particularly in the areas of pricing; inventory verification procedures; recycled or non-sellable items that were not tracked; surplus items being disposed of prior to receiving authorization; invoices being voided without management oversight; and no written procedures for deposit preparation.

Ms. Ruttman indicated that the Materials and Supply Division of the Business Services Department has created action plans for each of the above-mentioned items. She stated that her office will conduct a follow-up audit next year to ensure that such plans have been implemented.

Responding to a question from Committeemember Richins, Ms. Ruttman clarified that the kind of property that requires authorization for disposal would include capital items that are considered City assets in the system. She explained that property costing \$5,000 or more at the time of purchase is considered a capital item. She stated, however, that at the end of the useful life of the item, it is difficult to determine its worth. She added that if the property is being disposed of, staff has determined that it has limited value to the City.

Committeemember Richins inquired whether it was cost effective for staff “to go through everything in triplicate” just to dispose of an item.

Ms. Ruttman responded that she concurred with Committeemember Richins’ sentiments and stated that she would not recommend that staff put an onerous process in place in order to dispose of property that is not worth much. She pointed out, however, that it was important to create a certain level of accountability, since there is a risk to the City more along the lines of “the headline test.” She remarked that when there are no controls in place, items may be disposed of that should not have been.

Committeemember Richins asked Ms. Ruttman to provide an example of the type of scenario she is referring to.

Ms. Ruttman clarified that hypothetically, if an item were disposed of prior to it actually being at the end of its useful life because it had a useful life to someone else, such as an employee or a family member. She stated that if staff wanted to dispose of the item in the City’s Surplus Store or by some other means that would enable the property to be converted to personal use, that would be a way in which to do so. She further noted that a common way to convert City property to personal use would be to dispose of it through those channels and pointed out that there is very little attention paid to property once it is being disposed of. She indicated, however, that what she would not want to see happen is the implementation of a labor intensive and cost intensive process for that limited risk.

Ms. Ruttman further remarked that it was the recommendation of her office that the Materials and Supply Division use the existing systems and processes in place in order to create greater oversight. She noted that oftentimes, the deterrent in any kind of misconduct would be that someone is paying attention and thereby reducing the risk. She pointed out that one exception to the recommendation is that staff was attempting to automate a manual process in order to expedite the authorization to dispose of a piece of property through the system.

2. Code Enforcement – Follow-up Review

Ms. Ruttman stated that her office conducted a follow-up review of the Code Enforcement Program (**See Attachment 6**) to determine whether the Development and Sustainability Department effectively implemented the action plans presented in their responses to the October, 2012 audit of the program.

Ms. Ruttman reported that the audit revealed that a majority of the corrective plans have been implemented, but noted that there was one issue with respect to the billing process for liens that are placed against properties in lieu of payment. She explained that her office is still working with the Department to address this item. She pointed out that there is only one staff member charged with issuing the citation, collecting and recording the money and stated that ideally,

additional oversight would be desirable. She added that the Department has addressed that concern by having another staff member review the reports.

3. Wildland Response Team Reimbursements – Follow-up Review

Ms. Ruttman reported that this audit was a follow-up of the November, 2012 audit of the City's Wildland Response Team Reimbursement process. **(See Attachment 7)** She stated that the initial audit recommended that the Mesa Fire and Medical Department (MFMD) create a written process so that when there is turnover in staff, other staff members are aware of the reimbursement procedures and follow the appropriate state laws in order to accomplish that task.

Ms. Ruttman also noted that it was recommended that the MFMD develop a policy that defines the terms and conditions under which a rest period for firefighters will be permitted upon return from a Wildland deployment. She remarked that the policy should then be submitted to the Arizona State Forester with the goal of gaining approval for reimbursement of such rest periods in the future. She added that the MFMD was successful in creating that policy.

Chairman Finter thanked Ms. Ruttman for her presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 4:44 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 7th day of April, 2014. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK



mesa·az

CITY OF MESA, AZ

Energy Resources Department

Capital Improvement Program (CIP)

FY 14/15

MARCH 27, 2014



- Status of the 2010 Bond Authorization
- Major FY13/14 CIP Projects
- Key FY14/15 projects
- Four year CIP – Projects & Costs (2014 & beyond)
- 2014 Authorization



**2010 ELECTRIC BOND
AUTHORIZATION**

mesa·az

- 2010 Authorization of \$15,900,000
- 2010 Authorization completely spent by Spring 2015



FY13/14 CIP PROJECTS

INFRASTRUCTURE REPLACEMENT

- Six (6) 4 kV to 12 kV Circuit Conversions
- Mesa Dr. (10th Ave to 8th Ave) Underground Conversion
- Kellwood Substation - Transformer, Switchgear & Transmission Facilities & Circuits “Get-A-Ways”

GROWTH

- Extensions to serve New Customers & Solar Interconnections (YMCA, Encore, Temple Square Apts.)
- Electric Vehicle Charging Stations
- Light Rail & Underground Infrastructure(non-bond)
- Mobile Emergency Generators(non-bond)
- High Speed Transfer Switches(non-bond)



4 KV TO 12 KV CONVERSIONS

FY13/14

<u>Circuit</u>	<u>4kV Sub</u>	<u>MW</u>	<u>12kV Sub</u>	<u>Status</u>
132	10 th	2.2	Robson	Completed
122	Underpass	1.6	Lewis	Apr 2014
151	Morris	1.7	Kellwood	June 2014
152	Morris	0.2	Lewis	June 2014
153	Morris	0.5	Lewis	June 2014
154	Morris	0.6	Lewis	June 2014

FY14/15

123	Underpass	1.2	Kellwood	Oct 2014
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FY14/15 CIP PROJECTS

INFRASTRUCTURE REPLACEMENT

- Convert Circuit 123 from 4 kV to 12 kV (Final Circuit)
- Underground Conversions
 - Mesa Dr. from 8th Ave to Main Street
 - Pima Rd (between University & 6th Street)
 - Orange Road University to 6th Street
- Convert Extension Substation into “Pocket Park”
- Ongoing lifecycle replacements of overhead & underground distribution (e.g. poles, transformers, vaults & vault lids)

GROWTH

- Expansion of service to growing customers
- Extension of service to new customers



2014 AUTHORIZATION

INFRASTRUCTURE REPLACEMENT

- Underground Conversions
 - Morris: 2nd St. to University (part of Pocket Park @ Morris Substation)
 - Adjacent to Main Street as part of Gilbert Light Rail Extension
 - Mesa Drive
 - Expansion of Underground Distribution System Conversions
 - Pocket parks at de-energized substations (Morris & 10th Ave)
 - Steel Transmission Poles
 - Lewis & Robson Substations – Transformer & Circuit Breaker Upgrades
- ## GROWTH
- Light Rail Extension to Gilbert Road
 - New & Upgraded Services/New & Expanding Customers



2010 Gas Bond Authorization

- 2010 Authorization of \$ 48.4 million
- Projecting \$ 6.1 million remaining by
Spring 2015



FY13/14 CIP PROJECTS

INFRASTRUCTURE REPLACEMENTS

- Mesa Drive & Southern Project
- Dobson & University
- Ocotillo Gas Line Replacement (Magma)

GROWTH

- Power Road High Pressure Gas Line (McDowell to Thomas)
- High Pressure Gas Line Extension for Solid Waste CNG
- Cubs Spring Training Facility
- Valley Metro Light Rail Improvement
- Hunt Highway Gas Line Extension (Magma)
- Central Arizona College (Magma)
- Trilogy Phase Three subdivision (Magma)



FY14/15 CIP PROJECTS

INFRASTRUCTURE REPLACEMENTS

- Mesa Drive & Broadway
- Joint Water & Transportation Projects
- Regulatory Compliance Projects

GROWTH

- CNG Fueling Station @ EVIT
- New Mains, Services & Metering
- Residential Development is increasing



2014 AUTHORIZATION

INFRASTRUCTURE REPLACEMENTS

- Aging Infrastructure
- Joint Projects with Water & Transportation
- Magma Gas Operations Center

GROWTH

- CNG Fueling Station
- New Mains, Services & Metering from increasing growth
- New Regulator Stations (6)
- Security and SCADA computer system
- Distribution System Cross-ties

DISCUSSION



City of Mesa

FY 14/15

Utility Rate Recommendations

Audit, Finance & Enterprise Committee

April 7, 2014

Presented by the Office of Management and Budget



Enterprise Operations Financial Summaries

- Each utility is operated as a separate business center
- Combined Ending Reserve Balance will adhere to the adopted financial policy of at least 8-10% over the forecast period
- Reserve balance can be used to smooth the rate adjustments year-to-year

Enterprise Operations Financial Summaries

- Capital investment is needed to strategically position the City for future economic development and residential growth
 - Water and Wastewater infrastructure
- The cost of fuel and parts for the City's fleet of vehicles previously covered by other Departmental savings.
 - Solid Waste transition to Compressed Natural Gas (CNG)

Enterprise Operations Financial Summaries

- Employee Benefit Trust—no premium holiday scheduled
- Workers' Compensation—higher City contribution due to increase in claims
- Total Transfer amount from Enterprise fund is recommended to increase based on inflationary pressures

Water Utility Rate Recommendations

Water Projects (Completed 2009-14)

- Upgrade of three pump stations in City Zone
- Sixteen well upgrades (re-equipping and/or re-drill)
- Quarter section waterline replacements
- Waterline replacement projects joint with Transportation
- Brown Rd Water Treatment Plant (BRWTP) belt filter press
- Utility replacements on Main St with Light Rail project
- Reservoir aeration projects for water quality
- Generator installations for upper zone reliability
- Other pump station rehabilitation projects

Water Utility Rate Recommendations

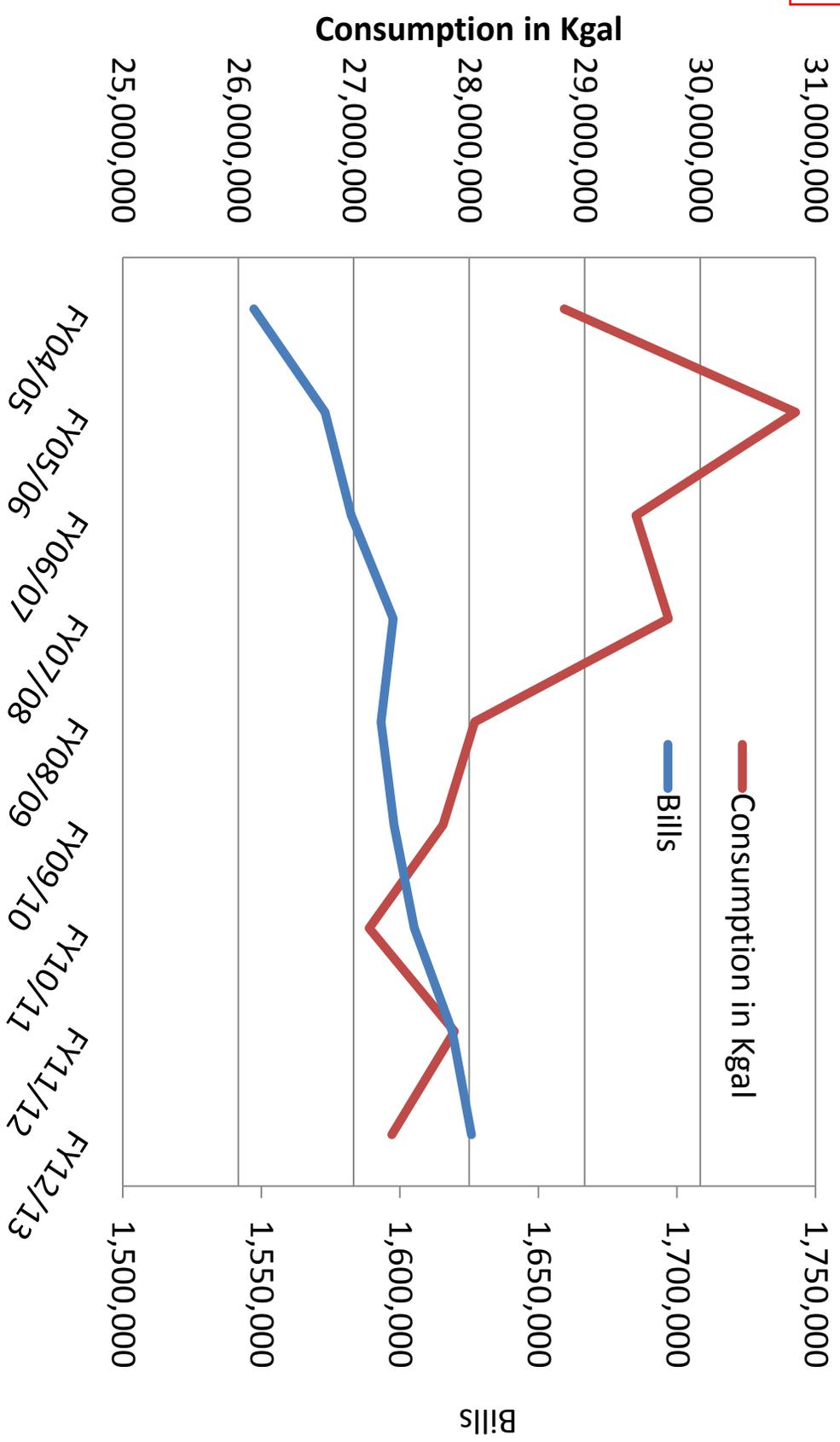
Water CIP

- Life-Cycle Replacements/Reliability
 - Brown Road Water Treatment Plant, Pump Stations, Wells
 - Pipes
- Growth/Economic Development- Residential/Manufacturing
 - Signal Butte WTP: 24 mgd
 - Wells
 - Pipes: Identified to support growth
- Contractual Obligations
 - Water Rights, Val Vista Water Treatment Plant and Transmission Main

Water Utility Rate Recommendations

- Annual Debt Service costs are expected to increase by \$12M by FY19/20
 - Includes presented projects
- Signal Butte operating costs scheduled to begin in FY17/18
- Service Charge revenue based on number of bills is more stable than Usage Charge revenue based on consumption

Water Utility Rate Recommendations

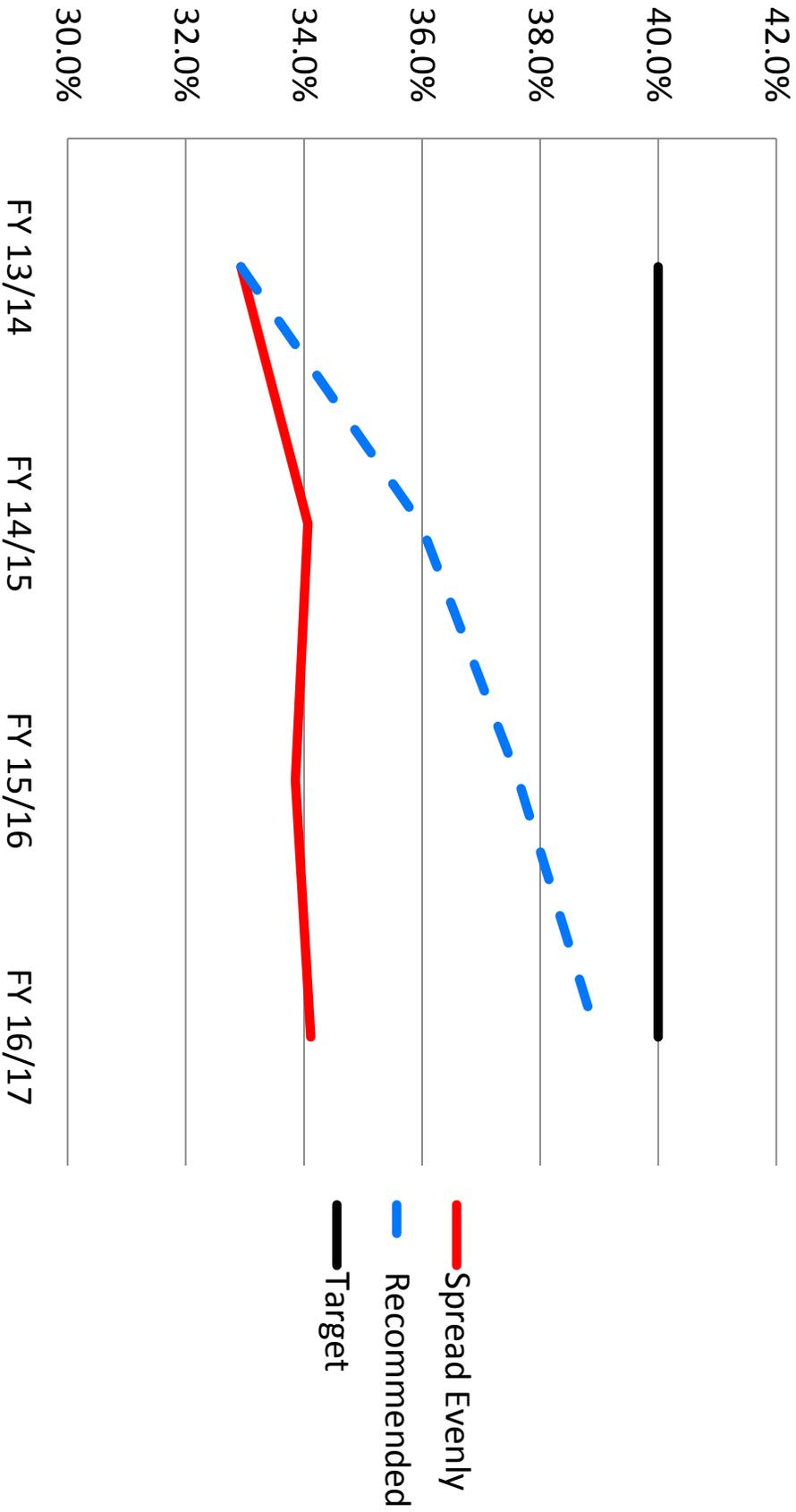


Water Utility Rate Recommendations

- Service Charge revenue targeted at 40% of expenditures
- Currently at 33% and spreading the recommended increase evenly would remain near that level into the future
- Increasing the Service Charge will move revenues closer to the 40% target

Water Utility Rate Recommendations

Water Service Charge as a % of Total Costs



- Spread Evenly
- - - Recommended
- Target

Water Utility Rate Recommendations

- Service Charge increase of \$3.00 per month, 3.5% increase on all other rate components
- Average Water Utility customer increases from \$39.69 to \$43.32
- Large Turf Facility Untreated Water Service
 - Anticipated \$125K in FY14/15, \$250K annually thereafter

Wastewater Utility Rate Recommendations

Wastewater Projects (Completed 2009-14)

- Southern Avenue Interceptor rehabilitation
- NWWRP headworks and clarifier rehabilitation
- Citywide sewer manhole rehabilitation
- Citywide sewer rehabilitation
- Southeast WRP disinfection improvements
- Rehabilitation of sewer crossing under US60
- Rehabilitation of existing lift stations and odor control stations

Wastewater Utility Rate Recommendations

Wastewater CIP

- **Life-Cycle Replacements/Rehabilitation:**
 - Northwest Water Reclamation Plant (NWWWRP)
 - Southeast Water Reclamation Plant (SWWRP)
 - Greenfield Water Reclamation Plant (GWRP)
 - Sewer lines, Lift Stations, Odor Control Stations and Manholes
- **Growth/Economic Development – Residential & Manufacturing**
 - GWRP Expansion: 10 mgd
 - Conveyance lines to support growth
- **Contractual Obligations**
 - Sub-Regional Operating Group (SROG), 91st Ave. Wastewater Treatment Plant
 - Salt River Outfall and Southern Avenue Interceptor

Wastewater Utility Rate Recommendations

- Annual Debt Service costs expected to increase by \$17M by FY18/19
 - Includes presented projects
- Greenfield Expansion operating costs scheduled to begin in FY17/18
- Service Charge increase of \$2.00 per month, 4.0% increase on all other rate components
- Average Waste Water Utility customer increases from \$25.53 to \$27.96

Electric Utility Rate Recommendations

- Commodity costs are passed through directly to the customers
- Equipment and technology to support system optimization and planned maintenance
- Proposed service charge increase remains \$10.50 per month less than SRP's comparable rate component (Monthly Service Charge of \$17.00)

Electric Utility Rate Recommendations

- System Service Charge component for residential is recommended to increase by \$0.79 per month
- System Service Charge for residential customers adjusted from \$5.71 per month to \$6.50 per month
- Average residential customer increases from \$45.19 to \$45.98 not including pass through electric commodity costs
- First proposed increase since FY03/04

Natural Gas Utility Rate Recommendations

- Commodity costs are passed through directly to the customers
- Annual Debt Service costs expected to increase by more than an additional \$2.9M by FY 19/20

Natural Gas Utility Rate Recommendations

- System Service Charge component for all gas customers is recommended to increase by \$1.14 per month
- The average System Service Charge for residential customers adjusted from \$11.14 per month to \$12.28 per month
- Average residential customer increases from \$25.18 to \$26.32 not including pass through natural commodity costs

Solid Waste Utility Rate Recommendations

- Vehicle usage and landfill costs are increasing in FY14/15
- CNG conversion underway to reduce future fuel costs
- New landfill and recycling contracts have been negotiated
- Software system to increase productivity and enhance quality service

Solid Waste Utility Rate Recommendations

- Residential 90 gallon barrel rate is recommended to increase from \$23.81 to \$25.45
- Mesa Green and Clean Fee to be adjusted from \$0.56 to \$0.65
- Average residential customer increases by \$1.73 from \$24.37 to \$26.10
- Commercial Front Load rates to be increased by an average of 5.9% and Roll-off by an average of 2.9%

Recommended Utility Rate Adjustments

	FY14/15	FY15/16	FY16/17
ELECTRIC	2.0%	2.0%	2.0%
GAS	3.0%	3.0%	3.0%
WATER	7.0%	7.0%	7.0%
WASTEWATER	7.0%	7.0%	7.0%
SOLID WASTE	6.9%	6.9%	6.9%

Average Residential Monthly Customer Impact

	Current FY 13/14	Proposed FY 14/15	Change
Water	\$39.69	\$43.32	\$3.63
Wastewater	\$25.53	\$27.96	\$2.43
Solid Waste	\$24.37	\$26.10	\$1.73
Avg Homeowner	\$89.59	\$97.38	\$7.79
Electric	\$45.19	\$45.98	\$0.79
Gas	\$25.18	\$26.32	\$1.14

Enterprise Fund Reserves

	Estimate 12/13	Estimate 13/14	Forecast 14/15	Forecast 15/16	Forecast 16/17
Beginning Reserve					
Balance	\$68,086,000	\$ 60,407,902	\$46,042,908	\$32,254,325	\$28,186,504
Total Sources	\$315,575,306	\$333,322,847	\$328,387,307	\$350,750,171	\$373,522,364
Total Uses	\$323,253,404	\$347,687,841	\$342,175,890	\$354,817,992	\$375,934,906
Ending Reserve					
Balance	\$60,407,902	\$46,042,908	\$32,254,325	\$28,186,504	\$ 25,773,963
Ending Reserve					
Balance Percent*	26.5%	19.2%	12.9%	10.6%	9.0%

*As a % of Next Fiscal Year's Operating, Capital and General Fund portion of Debt Service Expenditures (a subset of total uses)

Does not include the Falcon Field Enterprise

Schedule for FY 14/15 Utility Rate Consideration

April 7 – Adopt Utility Rate Notice of Intention

May 5 – Introduce Utility Rate Ordinances

May 19 – City Council Action on Utility Rates

July 1 – Effective date for Utility Rate changes



City of Mesa

FY 14/15 Fees & Charges Summary

April 7, 2014

Presented by the Office of Management and Budget



FY 2014-15 Fees & Charges

- Arts & Culture
- Business Services
- Development & Sustainability
- Engineering
- Falcon Field Airport
- Library Services
- Solid Waste Management
- Transportation

Arts & Culture

Various rate changes and the establishment or update of fee ranges

Arizona Museum of Natural History

- Financial Impact \$82,728

Mesa Grande Cultural Park

- Financial Impact \$4,233

(i.d.e.a. Museum)

- Financial Impact \$20,000

Arts & Culture

Mesa Arts Center - Performing Live

- Various Industrial Rates and Commercial Rate for Ikeda Theater, Virginia Piper Theater, Nesbitt-Elliott Playhouse and Cox-Farnsworth Theater
- Financial Impact \$6,200

Business Services

Business Services

- Financial Impact \$36,000
- New \$2 Credit Check Services Fee.
- Provides option to waive a residential deposit based on a credit score.
- Fee covers cost of performing the credit check.

Development & Sustainability

Planning and Development Services

- Financial Impact \$41,991 – Development Services
- Revise the Records Request fee to \$46.00 for one location for the first hour. This fee replaces the non-refundable Research Fee of \$20.00 for a maximum of 5 items per request
- It is recommended that an hourly fee will more accurately align with the full cost of providing the service

Development & Sustainability

- Environmental & Sustainability
- Financial Impact \$3.8 million – Environmental Compliance Fee
- Increase current \$5.38 fee by \$1.94 to \$7.32 per account, per month to cover increased cost
- Fund environmental compliance activities including air quality, stormwater, hazardous waste management, asbestos management, and underground storage tank compliance activities

Engineering

- Financial Impact \$38,810
- Create new Pavement Restoration fee to recover portion of pavement maintenance costs that result when newer streets are cut.
- Three-tiered rate structure based on pavement age and size of cut.

Falcon Field Airport

- No Financial Impact.
- Delete Tiedown Transfer Fee of \$109 per Transfer.
- Overall demand in the last 5 years has dropped considerably, effectively eliminating any transfers.

Library Services

- Financial Impact \$14,940.
- Small increases in various fees for items like holds not picked up, earbuds, overdue materials, etc.

Solid Waste Management

- Financial Impact \$12,816
- Solid Waste Residential Development Tax
- Increase Single Residence fee from \$185 to \$197
- Fee covers delivery and cost of barrels for new residential service

Transportation

- Financial Impact \$0
- Update fees and deposits charged to contractors that borrow City-owned traffic signal equipment to reflect most current pricing





Changes to the Terms and Conditions for the Sale of Utilities

**Audit, Finance and Enterprise Committee
March 7, 2014**



Changes Proposed

- Increase the amount of time given for another party to take responsibility for an account where the account holder is deceased from 14 to 30 days from time of notification. (SD01-3)
- Allow a deposit waiver if the City receives a favorable FICO score from a credit reporting agency. Also allows for a fee to be charged to recoup the cost of obtaining the score whether the deposit is waived or not. (SD01-4)
- Increase the amount of time the City will go back to possibly waive a deposit if the applicant has had service with the City from 18 to 24 months. (SD01-4)



Changes Proposed

- Reduce the timeframe needed to receive a credit refund for a residential deposit from 36 to 24 months. (SD01-5)
- Automatically credit the deposit to the account if the established criteria has been reached. (SD01-5)
- Detail the deposit refund procedure for refunds where no utility account exists to receive a credit. How the refunds will be credited if a credit card is used or when cash, check or money order was used, or any combination thereof. (SD01-5)
- Minor housekeeping verbiage changes throughout



Questions?



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

Date: March 18, 2014

To: Audit, Finance and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit of Surplus Property Disposal

cc: Alex Deshuk, Manager of Technology and Innovation
Ed Quedens, Business Services Dept. Director
Doug Fugate, Mail, Print, and Materials Administrator

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed an audit of the City's surplus property disposal processes. The final report is attached and will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. Please feel free to contact me with any questions or concerns.

AUDIT REPORT

CITY AUDITOR

Report Date: March 18, 2014
Department: Business Services / Materials & Supply Division
Subject: Audit of Surplus Property Disposal
Lead Auditor: Karen Newman

OBJECTIVES

The objectives of this audit were to determine whether City surplus property is managed and disposed of in accordance with applicable policies, procedures, and regulations; and to determine whether adequate internal controls are in place and operating effectively to minimize the risks associated with the various disposal methods and processes.

SCOPE & METHODOLOGY

To accomplish our objectives, we reviewed applicable citywide and departmental policies and procedures; interviewed staff responsible for the disposal process; observed operations at the East Warehouse Surplus Store; reviewed and tested inventory records, sales transactions, and deposit preparation; and evaluated the adequacy of the related internal controls.

BACKGROUND

The Materials and Supply Division of the Business Services Department is responsible for the disposal of City personal property (except for vehicles) meeting specific criteria, as established by the City Manager and set forth in Management Policy #205. Disposal of any City personal property with a cost exceeding \$100 requires the approval of the Business Services Department Director. Saleable items are tracked in an electronic inventory system and sold, either in the City Surplus Store or via EBay or Public Surplus auctions. Alternative methods of disposal are seldom used, but may include trade-in, sealed bid sale, negotiated sale, donation to a qualified organization, recycle/scrap, etc. Proceeds from the sale of asset forfeiture property are deposited into a special account for law enforcement use, as required by law. All other sale proceeds are deposited into the City's General Fund to help offset the cost of warehouse operations. Last fiscal year, the total surplus sales revenue was approximately \$295,000.

CONCLUSION

We found that the staff members responsible for the surplus property disposal process are very conscientious and they consistently provide excellent customer service to both internal and external customers. However, Surplus Store operations and practices do not always comply with City and departmental policies and procedures. In our opinion, internal controls over the disposal process need improvement, particularly in the areas of pricing, inventory records, and management oversight. A summary of our findings and recommendations is included below. For additional details, please see the attached Corrective Action Plans (CAPs).

SUMMARY OF FINDINGS & RECOMMENDATIONS

Finding	Recommendation
<p>1. Discounts and price reductions are applied without required authorization, supporting documentation, or management oversight.</p>	<p>1-1. All price reductions or negotiations outside of the established surplus sales labeling and discounting guidelines should be authorized in writing by the Materials & Supply Administrator. Documentation of this authorization should be maintained in accordance with applicable record retention policies.</p> <p>1-2. The Materials & Supply Administrator should periodically review reports showing discounts applied to inventory items, to ensure only authorized discounts are processed.</p>
<p>2. No effective inventory verification procedures are in place. Adjustments to inventory records are made without authorization, supporting documentation or management oversight.</p>	<p>2-1. Effective periodic or perpetual inventory verification procedures should be implemented.</p> <p>2-2. Inventory adjustments should always be authorized and documented.</p> <p>2-3. The Materials & Supply Administrator should periodically review reports showing inventory adjustments.</p>
<p>3. Recycled and other non-sellable items are not reviewed in aggregate or tracked in the system.</p>	<p>3-1. The Materials & Supply Administrator should periodically review a list of items that have been recycled or disposed of without being sold.</p>
<p>4. Surplus items are disposed of prior to receiving a signed Approval for Disposal form.</p>	<p>4-1. Materials and Supply should not dispose of surplus property until the authorization required to do so is received.</p> <p>4-2. Documents authorizing disposal of property should be maintained in a manner that allows them to be traced to the related property items and vice versa; or a different means of documenting and/or verifying disposal authorization should be developed.</p> <p>4-3. Management should consider revising Management Policy #205 to provide a more expedient/efficient means of authorizing the disposal process.</p>
<p>5. Invoices are voided without approval or oversight.</p>	<p>5-1. All voided invoices should be appropriately documented and approved.</p> <p>5-2. The Materials and Supply Administrator should periodically review system reports showing voided and missing invoices.</p>
<p>6. There are no written deposit preparation procedures.</p>	<p>6-1. Procedures for deposit preparation should be documented.</p>

CAP#1: Discounts and Other Price Adjustments Occur Without Authorization

Observations: Price reductions and percentage discounts are applied beyond those provided for within established procedures, without management authorization or oversight.

Comments: Management has established procedures for price labeling and progressive discounting of surplus inventory items at scheduled intervals. The longer an item remains on hand, the greater the discount. However, we found that actual practices are not always in accordance with those procedures. Discounts on actual sales varied both higher and lower than provided for by the established pricing schedule. This was sometimes done as an across the board discount, i.e. all bikes sold at 50% off on a given day. In other cases, variances were found only on individual transactions.

In addition to percentage discounts applied at the time of sale, the list price of an item is sometimes changed with no documented authorization or reason.

According to the City of Mesa Surplus Sales Store Procedures, "*Each sale item will be given a price at its inception and will only be discounted within the parameters of the colored dot system- no other price reductions or price negotiations will be made unless authorized by the Materials & Supply Administrator.*"

Unauthorized discounts or price reductions outside of the parameters established by management increase the risk of loss due to fraud.

- Recommendations:**
- 1-1. All price reductions or negotiations outside of the established surplus sales labeling and discounting guidelines should be authorized in writing by the Materials & Supply Administrator. Documentation of this authorization should be maintained in accordance with applicable record retention policies.
 - 1-2. The Materials & Supply Administrator should periodically review reports showing discounts applied to inventory items, to ensure only authorized discounts are processed.

Management Response:

- 1-1. The Surplus Store has written procedures to manage price reductions in the Surplus Store: "A store item will be in the store at full price for its first 90 days. After 90 days, it will then be discounted 25%. After the item has been in the store for a full 180 days, it will be removed and placed in an auction type venue."

Any store items that are to be sold outside of these parameters will be prior approved in writing by the Mail, Print & Materials Administrator.

- 1-2. The Surplus Store system has created a report (Surplus Items not Sold at Discount) that shows all store items that have sold outside of the established parameters. The Mail, Print & Materials Administrator will review this report at least monthly to ensure compliance with established procedures.

CAP#2: Effective Inventory Verification Procedures Have Not Been Implemented

Observations: Effective inventory verification procedures have not been implemented. In addition, adjustments to inventory records are made without authorization, supporting documentation, or management oversight.

Comments: Although some form of inventory counts were reportedly conducted, no structured procedures were followed, segregation of duties was not maintained, and the results were not adequately documented. Best practices in inventory management include either periodic or perpetual inventory counting procedures. These procedures serve to verify that all recorded inventory is physically present and accounted for, and that all physical inventory is accurately recorded in the system. They also serve as a compensating control in the absence of other internal controls.

When performing inventory counts, segregation of duties is critical to the integrity of the process. This is especially true when staffing levels are insufficient to allow for adequate segregation of duties in day to day operations. While it may be unavoidable to have the same individual maintain the inventory records, manage the physical inventory, and process sales transactions, it is essential that this individual not be responsible for the periodic inventory verification procedures. This includes any post-inventory adjustments made to the system.

When an inventory record is adjusted, such as when a price is changed, or an item is marked as "stolen", it is important that the change is authorized and that the reason for the change is documented. This is true whether the change results from inventory verification procedures or for any other reason.

Recommendations:

- 2-1. Effective periodic or perpetual inventory verification procedures should be implemented.
- 2-2. Inventory adjustments should always be authorized and documented.
- 2-3. The Materials & Supply Administrator should periodically review reports showing inventory adjustments.

Management Response:

- 2-1 The Warehouse Supervisor will perform weekly, random counts of surplus inventory. The Warehouse Supervisor will pull a report from the Surplus Sales System using the Surplus Inventory Catalog, choosing several categories to count each week.
- 2-2 Any discrepancies and adjustments will be reported on a

"Surplus Program Item Discrepancy/Adjustment Documentation"
form.

- 2-3 Any discrepancies found and adjustments completed will be reviewed by the Mail, Print and Materials Administrator.

CAP#3: Oversight Over Disposal of Non-Sellable Items Needs Improvement

Observations: Recycled and other non-sellable items are not reviewed in aggregate or tracked in the inventory system.

Comments: When items are transferred to Materials and Supply for disposal, but are deemed unfit for sale, they may be recycled, disposed of in a Solid Waste bin, or otherwise scrapped. However, when this occurs, the items are not entered into the inventory system, no documentation is maintained, and there is no review or oversight of the process.

With no oversight and no documentation, there is an increased risk that misappropriation of assets could occur without being detected.

Recommendations: 3-1. The Materials & Supply Administrator should periodically review a list of items that have been recycled or disposed of without being sold.

Management Response: 3-1. Currently, the disposal method should be indicated on the Internal Property Report/Transfer Forms though the audit did reveal a lack of consistency. Until an automated system is in place, the Mail, Print and Materials Administrator will ensure these documents indicate a disposal method for each item transferred from departments on the transfer form which is attached to the Approval for Disposal form.

There is a report that has been developed in the Surplus Store System that will show items not sold due to being disposed in another manner (recycled, trashed or cannibalization). These are items that were initially going to be sold, but were determined to be nonworking/saleable. This report will be reviewed by Mail, Print & Materials Administrator monthly.

To manually input all items sent to the warehouse into the Store System simply to show they were disposed of would be a tremendous task. An integrated Property Transfer and Disposal Approval system is being developed that would make this possible. All surplus items would then be easily tracked from the initiation of a transfer from a department to the Store or to another disposal method will be traceable. The system is in queue with IT and is targeted for completion mid-2014.

CAP#4: Disposal Authorization Process Needs Improvement

Observations: Materials & Supply often disposes of surplus items prior to receiving a signed Approval for Disposal (AFD) form. In addition, AFD forms are not maintained in a manner that allows them to be traced to the related property items or vice versa.

Comments: Staff members reported that surplus items are often sold prior to receipt of the signed AFD forms, as the process of obtaining the form is lengthy and it is not cost efficient or practical to store the items until the forms are received. They also noted that there is currently no way to tie the forms back to the respective items; therefore, we were unable to test whether any specific item sold or for sale had been properly approved for disposal.

Management Policy #205 Section IV states: *"... Except as exempted above, no City personal property shall be disposed of unless an Approval for Disposal Form has been approved by the department head and City Manager Designee, including property that is recommended to be scrapped via recycling or disposal."*

The AFD form is used to document not only the authority to dispose of an item, but also the approved method of disposal. Without the form, there is currently no means to verify this information. Thus, any property item to be disposed of should be traceable to a corresponding AFD form, unless an alternative method is developed to verify that each item has been authorized for disposal. At the time of this writing, management was in the process of developing an automated/online version of the AFD form, with the hope that this will help speed up the process. While we support this approach, it may not completely resolve the issue of compliance.

- Recommendations:**
- 4-1. Materials and Supply should not dispose of surplus property until the authorization required to do so is received.
 - 4-2. Documents authorizing disposal of property should be maintained in a manner that allows them to be traced to the related property items and vice versa. Alternatively, a different means of documenting and/or verifying disposal authorization should be developed.
 - 4-3. Management should consider revising Management Policy #205 to provide a more expedient/efficient means of authorizing the disposal process.

Management Response: 4-1 Authorization of the Approval for Disposal form now happens earlier in the process. No surplus items will be sold until necessary authorization is received.

- 4-2 Under current paper-based process this is difficult. The intended outcome is now noted for each item attached to an Approval for Disposal form.

An integrated Property Transfer and Disposal Approval system is being developed that would make this possible. All surplus items would then be easily tracked from the initiation of a transfer from a department to the Store or to another disposal method will be traceable. The system is in queue with IT and is targeted for completion mid-2014.

- 4-3 Management Policy 205 is being rewritten and changes to the authorization process are being proposed.

CAP#5: Documentation and Oversight of Voided Invoices Needs Improvement

Observations: Invoices generated by the Surplus Store inventory system were voided without authorization, supporting documentation, or management oversight. We also found that numerous invoices were missing from the sequence of invoices in the inventory system.

Comments: Management Policy #210, Cash Handling, states that: "*VOIDS and refunds should be appropriately documented and approved.*"

Since voiding or deleting invoices are known ways of concealing fraud, requiring management approval or providing another means of oversight serves as a fraud deterrent.

While IT support staff assured us that invoices cannot be deleted from the system, we noted that no process was in place to detect or resolve this issue.

Recommendations: 5-1. All voided invoices should be appropriately documented and approved.

5-2. The Materials and Supply Administrator should periodically review system reports showing voided and missing invoices.

Management Response: 5-1. All voided invoices and a reason for void will be documented and kept on file for review.

5-2. The "Store Daily Sales Tally" report will be reviewed monthly by Mail, Print & Materials Administrator. Voids and missing invoices on the report will be verified against the documentation and the reason for the void will be validated.

CAP#6: Procedures Needed for Deposit Preparation Process

- Observations:** There are no written procedures for deposit preparation at the Surplus Store.
- Comments:** Written procedures provide the guidance necessary for consistently and accurately performing key processes. These documents aid in setting clear expectations, reducing errors and ensuring continuity of operations during employee absences, particularly when such a small staff is responsible for the entire operation.
- Recommendations:** 6-1. Procedures for deposit preparation should be documented.
- Management Response:** 6-1. Documented procedures for Surplus deposit preparation have been completed.



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

Date: March 4, 2014

To: Audit, Finance and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Code Enforcement Program – Follow-up Review

cc: Kari Kent, Deputy City Manager
Christine Zielonka, Development & Sustainability Dept. Director
Laura Hyneman, Deputy Director – Development & Sustainability Dept.

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a review of our audit of the City's Code Enforcement Program. The final report is attached and will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. Please feel free to contact me with any questions or concerns.

FOLLOW-UP REVIEW

CITY AUDITOR

Report Date:	March 4, 2014
Department:	Development & Sustainability
Subject:	Code Enforcement Program
Lead Auditor:	Karen Newman, Sr. Internal Auditor

OBJECTIVE

The objective of this review was to determine whether the Development & Sustainability Department has effectively implemented the action plans presented in their responses to our October 2012 audit of the City's Code Enforcement Program.

SCOPE & METHODOLOGY

To accomplish our objectives, we interviewed key personnel and reviewed CDBG expense reimbursement requests, Code Enforcement processes and code violation cases from January 2013 through January 2014.

BACKGROUND

On October 31, 2012, we issued a report on our audit of the City's Code Enforcement Program. The objectives of that audit were to verify that the Code Enforcement Program operates in compliance with Community Development Block Grant (CDBG) funding requirements and determine whether internal controls are adequate to minimize risks and maximize effectiveness.

The audit report included several recommendations, which can be summarized as follows:

1. Update and expand the checklist(s) used by staff to ensure that only eligible expenses are included on the summary worksheet submitted for CDBG reimbursement, and verify that all required supporting documentation is included prior to submission.
2. Ensure timely and appropriate follow up of code violations, by reviewing case status aging reports and updating the Case Enforcement Process Work Instructions.
3. Segregate the duties of issuing invoices and receiving payments for civil citations; or implement compensating controls to ensure that all invoices issued and payments received are properly recorded.
4. Develop a process to reconcile civil citation invoices to the City's Accounts Receivable system.
5. Document the code violation civil citation process.

In response to the report, the department agreed with the recommendations and presented corrective action plans.

CONCLUSION

The majority of the corrective action plans have been implemented; however some of the improvements to the Civil Citation Process were still in progress at the time of this review. A complete list of corrective action plans, along with our findings regarding their implementation status, is presented in the attached [Appendix](#).

APPENDIX

 = Implemented  = In Progress  = Not Implemented

Corrective Action

Implementation Status

CAP#1: Monthly Summaries of CDBG Expenses – Processes and Documentation

Recommendation 1: Management should ensure that all expense summaries prepared for the purpose of obtaining CDBG reimbursement are accurate and complete; and that all required supporting documentation is included prior to submission.

Management Response: The Development and Sustainability Department has been working closely with Housing & Community Development on the checklist for submitting supporting documentation. A checklist has been developed to ensure that supporting documentation submitted is accurate and complete. The checklist also includes a signature line to confirm receipt by Housing. (Exhibit A) Work Instructions will be updated.

The MOU between Development and Sustainability Department & Housing and Community Development states that CDBG funds may be spend on salaries and training for 4 full time employees and temporary employee services. With the implementation of the new Advantage system, Accounting provides Code Admin a Payroll Extract, showing the actual payroll costs associated each employee on a bi-weekly basis. These Payroll Extract Reports are provided to Housing with Officer Activities reports, Activity Summary reports, and Timecards. In the past this information was pulled from a variety of sources and depended on each officer documenting their daily activities spent inside and outside CDBG areas. With 4 officers assigned exclusively to CDBG areas, documentation is much simpler and less likely to result in errors.

Implemented

A checklist has been created to ensure that supporting documentation is accurate and complete. This resulted in improvements to the documentation submitted with the CDBG funding requests.



Recommendation 2: Management should ensure that only eligible expenses are submitted for CDBG reimbursement. To that end, we suggest that improved checklists be developed, to include the specific items, tasks and reconciliation steps needed to ensure accuracy and completeness.

Management Response: Two practices have been put in place to ensure that only eligible expenses are

Implemented

Code Enforcement Officers are now separately assigned to CDBG and non-CDBG areas and are no longer dividing their time between both areas. In addition, Tidemark system reports have been created to support CDBG funding requests.



APPENDIX

 = Implemented  = In Progress  = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>submitted to Housing for CDBG reimbursement: four code officers are assigned exclusively to CDBG areas and a new report has been developed to confirm that cases each code officer works on is located within a CDBG area.</p> <p>The Tidemark system has been modified so that it automatically identifies whether a parcel is within or outside a CDBG area. When a code case is opened, this information is viewable by the Code Officer on the opening page of the code case. A Tidemark report, "CDBG Areas – Addresses Opened" shows code enforcement activities, the Code Officer's name, an address for each case and whether the property is within or outside a CDBG area. (Exhibit B) Previously, code officers worked both inside and outside a CDBG area. The department relied on each officer documenting the time they spent inside and outside CDBG areas on a daily basis. Summarizing these activities involved a combination of reports. This year, accounting for Code Officers activities has been simplified with the new assignments.</p>	<p>These changes have helped to ensure only eligible expenses are submitted for reimbursement.</p>	
<p>Recommendation 3: Specific Officers are now assigned to CDBG properties, eliminating the need to track the amount of time they spend on CDBG and non-CDBG activities. However, if such tracking should be needed in the future, a more structured approach to time tracking should be considered, in order to ensure consistency and accuracy.</p> <p>Management Response: A Tidemark report has been developed that shows each COD case, the Code Officer assigned to work on the COD case and whether the COD case was located in a CDBG area. This report will verify for Housing and Community Development that Code Officers assigned to CDBG areas did indeed work in CDBG areas. (Exhibit B)</p> <p>In the future, if Code Officers are assigned to work both inside and outside the CDBG areas, a more structured approach will be developed. A strategic approach to the allocation of work and time tracking will be developed to ensure reports are consistent and accurate.</p>	<p>Implemented</p> <p>As noted under Recommendation 2, Officers are now separately assigned to CDBG and non-CDBG areas and are no longer dividing their time between both areas. However, staff now has improved Tidemark system reports that could serve as a mechanism to track this information in the future.</p>	<p></p>

APPENDIX

 = Implemented  = In Progress  = Not Implemented

Corrective Action

Implementation Status

CAP#2: Case Management – Follow-up/Monitoring Process

Recommendation 1: Management should run case status aging reports and review them on a regular basis to ensure timely and appropriate follow up of code violations.

Management Response: The Code Supervisor runs a report entitled Code Cases 90 Days Old on a weekly basis. Each open case is reviewed to determine if the case is active and to ensure there is appropriate follow up. The Deputy Director reviews the Code Cases 90 Days Old report with the Supervisor on a monthly basis.

A new task was added to Tidemark that enables anyone to look at cases that have been opened but that have not had any follow up activity. This task has been added to the Supervisors and Deputy Directors task lists and will be reviewed by the Supervisor weekly and the Deputy Director monthly.

This monitoring procedure will be added to the Work Instructions.

Implemented

Management regularly reviews older cases, as well as any open cases that have not had any activity, to ensure timely and appropriate follow-up activities are performed.



Recommendation 2: Management should update the Case Enforcement Process Work Instructions to include clear guidance and expectations for timely follow up of code violation cases.

Management Response: The Work Instructions have been updated with specific guidance on follow up times for each step of the code enforcement process. The goal is to obtain voluntary and prompt compliance whenever possible while also building evidence if a civil or criminal action is needed. Additional time may be given to implement corrective actions depending on the severity and hazards associated with the type of violation(s), the necessity for submitting plans and/or obtaining permits from the City or other agencies, and the availability of services or materials. Timeframes provided may also be shortened based on the severity and hazards associated with the type of violation and whether the violation was a conducted in a knowingly or willful manner. (Exhibit C)

Assignment of four officers to the CDBG area and three

Implemented

The Basic Case Enforcement Process Work Instructions have been updated to include clear guidance and expectations for timely follow-up of code violation cases.



APPENDIX

 = Implemented  = In Progress  = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>officers to the remainder of the City has impacted the response time for confirmation of new code cases. Response times are compiled for management on a monthly basis.</p>		
CAP#3: Civil Citation Process Controls		
<p>Recommendation 1: Ideally, management should segregate the duties of issuing invoices and receiving payments for civil citations. However, if limited staffing prevents segregation, compensating internal controls should be developed and implemented to ensure that all invoices issued and payments received are properly recorded. Compensating controls can vary, but may include additional management reviews/oversight, independently performed reconciliations, rotation of duties, etc.</p> <p>Management Response: Citation process controls that segregate the issuance of invoices from the collection of payments have been improved in two ways: implementation of the Advantage system and logging of payments sent directly to the Civil Hearing Office.</p> <p>The Civil Hearing Offices creates invoices and enters them into the Advantage system. Payments made by mail are processed by Customer Service. Then the Code Administrative Supervisor enters all payment information into Tidemark. Hand-delivered payments are received by the Development Services Front Desk staff are entered into Tidemark and submitted to Customer Service. If payments are sent directly to the Civil Hearing Office by mistake, department administrative support staff will log the payments in a spreadsheet and take the check to Customer Service. After reviewing the spreadsheet, the Code Administrative Supervisor will enter all payment information into Tidemark.</p> <p>Work Instructions are being revised to reflect how information is entered and received from the new Advantage system.</p>	<p>In Progress</p> <p>Due to limited staffing, segregation of duties between the issuing of invoices and receiving payments could not be fully implemented. Management is aware of and accepts the associated risks until additional staffing can be added. As noted below, compensating controls, including increased reporting and oversight, have been implemented and continue to be improved as resources become available.</p>	<p></p>
<p>Recommendation 2: Management should develop a process through which all civil citation invoices and</p>	<p>In Progress</p> <p>The department continues to</p>	<p></p>

APPENDIX

 = Implemented

 = In Progress

 = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>payments are reconciled with the City's A/R system, to ensure that the creation and disposition of all Tidemark invoices accurately reflects those recorded in A/R.</p> <p>Management Response: The Civil Hearing Office has sent the Advantage accounting team a request for a report that will show all Code and Civil hearing invoices and payments. The report will be used to reconcile fee information in Tidemark.</p> <p>Work Instructions will be revised when the procedure is finalized.</p>	<p>work with the City's Accounting Division on an effective process for recording and reconciling these receivables. As a compensating control, improvements have been made to the civil citation process, including increased oversight. New reports have been created in both Tidemark and Advantage that provide greater visibility of the citation revenue that has been collected. These reports are reviewed monthly by the Sr. Fiscal Analyst and the Development and Sustainability Deputy Director.</p>	
<p>Recommendation 3: Management should ensure that written procedures for administering the code violation civil citation process are complete, accurate, and regularly updated.</p> <p>Management Response: Work Instructions were written in Feb 2012 to document the Code Enforcement Process including the Citation Process. The Citation Service Requirements Work Instructions have been updated and reviewed by the City Attorney. Administrative Work Instructions, including preparing invoices and documenting payments, will be updated to include instructions for the new Advantage System. Civil Hearing Office Staff is working with Development Services Front Counter staff to insure that all payments are accurately documented in Tidemark. Work instructions have been written and the Code admin staff has provided training.</p> <p>Accounts and Work Instructions will be reviewed regularly to ensure they are consistent with current procedures and to ensure they include best management practices.</p>	<p>Implemented</p> <p>Work Instructions to document the Civil Citation Process were completed in February 2014 and will be updated as changes occur.</p>	<p></p>



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Date: March 4, 2014

To: Audit, Finance and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Follow-up Review – Wildland Response Team Reimbursement Process

cc: John Pombier, Deputy City Manager
Harry Beck, Fire Chief

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of our audit of the Mesa Fire & Medical Department Wildland Response Team Reimbursement Process. The final report is attached and will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. Please feel free to contact me with any questions or concerns.

FOLLOW-UP REVIEW

CITY AUDITOR

Report Date:	March 4, 2014
Department:	Mesa Fire & Medical Department (MFMD)
Subject:	Wildland Response Team Reimbursement Process
Lead Auditor:	Karen Newman, Sr. Internal Auditor

OBJECTIVE

The objective of this review was to determine whether the Mesa Fire & Medical Department (MFMD) has effectively implemented the action plans presented in their responses to our November 2012 audit of the City's Wildland Response Team Reimbursement Process.

SCOPE & METHODOLOGY

To accomplish our objectives, we reviewed applicable policies and procedures and other established guidance and interviewed City staff members.

BACKGROUND

On November 7, 2012, we issued a report on our audit of the City's Wildland Response Team Reimbursement Process. The objective of that audit was to evaluate the processes in place to ensure the City receives all available reimbursements from the State for services and equipment provided by the MFMD Wildland Response Team.

The audit report included two recommendations, which can be summarized as follows:

1. Standard Operating Procedures (SOPs) for tracking Wildland Response Team expenses and requesting reimbursement from the State should be documented, to clearly disseminate expectations, minimize disruptions of essential operations during employee absences and ensure compliance with Arizona State Forester requirements.
2. The MFMD should develop a policy that defines the terms and conditions under which a rest period will be permitted upon return from a Wildland deployment. This policy should then be submitted to the Arizona State Forester with the goal of gaining approval for reimbursement of such rest periods in the future.

In response to the report, the department agreed with the recommendations and presented corrective action plans.

CONCLUSION

All of the corrective action plans have been implemented. A complete list of corrective action plans, along with our findings regarding their implementation status at the time of this review, is presented in the attached [Appendix](#).

APPENDIX

 = Implemented  = In Progress  = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>	
CAP#1: Documentation of Standard Operating Procedures (SOPs)		
<p>Recommendation: Standard Operating Procedures (SOPs) for tracking Wildland Response Team expenses and requesting reimbursement from the State should be documented, to clearly disseminate expectations, minimize disruptions of essential operations during employee absences and ensure compliance with Arizona State Forester requirements.</p> <p>Management Response: The Financial Division of the Department is currently writing procedures that will document reimbursement procedures to ensure compliance with Arizona State Forester requirements to minimize disruptions of essential operations and ensure consistent expectations and procedures among the various members of the Department involved in Wildland responses, the tracking of those responses and the members responsible for processing the reimbursements. Since the Arizona State Forester updates their procedures annually and releases those updates in February or March of each year, our procedure will not be completed until we receive those updates. Our procedures will need to be reviewed annually to ensure compliance with the Arizona State Forester's annual update.</p>	<p>Implemented</p> <p>Standard Operating Procedures for tracking Wildland Response Team expenses and requesting reimbursement from the State have been documented.</p>	
CAP#2: Post-Wildland Rest Period Policy		
<p>Recommendation: The MFMD should develop a policy that defines the terms and conditions under which a rest period will be permitted upon return from a Wildland deployment. The policy should provide specific, appropriate guidance to ensure that all employees are treated fairly and that safety is maximized.</p> <p>The policy should then be submitted to the Arizona State Forester with the goal of gaining approval for future reimbursement of costs associated with rest periods. If approval is obtained, accounting for rest period expenses should be added to the Department's Standard Operating Procedures for tracking Wildland Response Team expenses and requesting reimbursement.</p> <p>Management Response: The audit of our wildland reimbursement procedures identified a gap in our Standard Operating Procedures (SOPs) as it pertains to reinstating members back in service after a wildland deployment. The lack of having such a procedure has caused some confusion and inconsistency among returning members and may have disqualified us from being eligible to submit for return rest period reimbursements. The Staffing Guidelines Committee, a standing Labor/Management committee, will review the current deployment/reinstatement wildland response procedures and make revisions that are updated to correspond with the Arizona State Forester's reimbursement procedures. The new procedure will be submitted to the Arizona State Forester for approval.</p>	<p>Implemented</p> <p>SOP 110, which defines the terms and conditions under which a rest period will be permitted upon return from a Wildland deployment, has been developed and approved by the State.</p> <p>Reimbursement procedures have also been updated to ensure rest periods are reimbursed, when applicable.</p>	