

AUDIT, FINANCE & ENTERPRISE COMMITTEE

December 10, 2018

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 December 10, 2018, at 4:00 p.m.

COMMITTEE PRESENT

Mark Freeman, Chairman
Christopher Glover
David Luna

COMMITTEE ABSENT

None

STAFF PRESENT

Michael Kennington
Dee Ann Mickelsen
Jim Smith

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation and discuss the following audits:

City Auditor Jennifer Ruttman displayed a PowerPoint presentation. **(See Attachment 1)**

1. Transportation Contract Monitoring

Ms. Ruttman confirmed that all action plans requested from the June 2017 audit report have been implemented.

2. Agreements with Nonprofit Support Organizations

Ms. Ruttman reviewed Nonprofit Support Organizations (NPSO) and recommended a written agreement for the Foundation for Mesa Parks and Recreation, since there is not an agreement in place. (See Page 6 and 9 of Attachment 1)

In response to a question posed by Chairman Freeman, Ms. Ruttman responded that the NPSO timeline for completion of written and updated agreements is by the end of the fiscal year.

Ms. Ruttman emphasized that grants awarded to the NPSO or the City that the funding must stay with the entity that received the award. (See Page 11 of Attachment 1)

In response to a question from Committeemember Luna, Ms. Ruttman clarified that grant writing and fundraising services for NPSO's are provided by City staff and included in the agreement.

She emphasized the importance of having accurate documentation and verifying funding is handled according to processes and procedures.

In response to a question posed by Chairman Freeman, Ms. Ruttman clarified that Grants Coordinator Sharon Skinner, assists City NPSO staff on the completion of the grant application.

3. Golf Concessions Contracts

Ms. Ruttman stated that the Parks, Recreation and Community Facilities Department requested the audit to review the agreement as a business prospective in order for the City and contractor to run a successful golf course and restaurant. (See Page 14 of Attachment 1)

She stated that since the terms of the contract had not been revised in some time, certain elements had not been enforced. She said that with older agreements there are opportunities for improvement which were worked into the RFP. She added that the contract will include benchmarks which will be used to hold the contractor accountable.

4. Eastmark CFD

Ms. Ruttman reported that the audit focused on financial review and that the City received recovery costs from the District according to the Development Agreement. (See Page 19 of Attachment 1)

Ms. Ruttman explained that the goal was to make sure all staff costs associated with Eastmark were being captured. She said this was being done for the most part, however, due to staff turnover, not all of it was being captured.

Ms. Ruttman stated that depending on how time is processed in Kronos, it translates from hours to dollars in our financial system (Advantage). She said that it is a relatively simple thing if a staff member's allocation is set up to charge a certain percentage of time to Eastmark, however, if hours are charged it's a little more problematic because when the system processes those costs it omits some of the fringe benefit costs. She added that accounting is going to conduct more oversight in the future to better capture these costs.

5. Citywide Cash Handling FY18 Annual Report

Ms. Ruttman reported that each year auditing staff visit cash sites throughout the City to make sure staff is following the cash handling policies. (See Page 24 of Attachment 1)

Ms. Ruttman pointed out that the audit found no new findings for the fiscal year.

Chairman Freeman thanked Ms. Ruttman for the presentation.

2-b. Hear a presentation, discuss, and provide a recommendation on the City's Comprehensive Annual Financial Report (CAFR) and Single Audit Reports for Fiscal Year Ended June 30, 2018.

Finance Director Irma Ashworth displayed a PowerPoint presentation. **(See Attachment 2)** She commented that Governmental Accounting Standards Board (GASB) Statement No. 75 was implemented for Fiscal Year (FY) 2018. (See Page 3 of Attachment 2)

Ms. Ashworth pointed out that Governmental Assets represent General, Special Revenue, Capital Project, and Debt Service funds; and that Business-Type Assets represent Enterprise and Internal Service funds. (See Page 4 of Attachment 2)

In response to a question posed by Committeemember Luna, Ms. Ashworth reported that reduction of the Excise Tax Obligation had been reduced from \$94 million in August 2018 from the Pinal County land sale to \$49 million. (See Page 7 of Attachment 2)

Chief Financial Officer Michael Kennington clarified that the remaining Excise Tax Obligations is not callable until FY 2022 and if land is sold prior to the callable date the City would defease the \$49 million.

Chairman Freeman thanked staff for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 4:34 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 10th day of December, 2018. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

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(Attachments – 2)

City Auditor

Presentation to the Audit, Finance, and Enterprise Committee

December 10, 2018

Jennifer Ruttmann, City Auditor

Audits Completed May-Dec 2018



Follow-up Review – Transportation Contract Monitoring



Agreements with Nonprofit Support Organizations



Golf Concessions Contracts



Eastmark CFD



Citywide Cash Handling – FY 2018 Annual Report

Transportation Contract Monitoring

Report Date: 6/13/2018

A follow-up review to ensure action plans were successfully implemented.

Transportation Contract Monitoring Follow-up Review

Action Plans In June 2017 Audit Report

Transportation Action Plans:

- ✓ Resolve technical issues that were causing inaccurate calculations on Invoice Authorizations.
- ✓ Ensure invoice pricing matches contract pricing.

Purchasing Action Plans:

- ✓ Redesign Master Agreement form to display full (not rounded) contract prices.
- ✓ Improve quality controls over Council Reports.
- ✓ Ensure final contracts are uploaded to EDMS.

Agreements with Nonprofit Support Organizations

Report Date: 12/3/2018

A review of the City's relationships with affiliated nonprofit support organizations.

Agreements with Nonprofit Support Organizations

What is a nonprofit support organization (NPSO)?

- For our purposes, an “NPSO” is a separate nonprofit entity dedicated to supporting a City department, program, or venue.
- There are 4 NPSOs affiliated with the City:
 - Mesa Arts Center Foundation
 - AZ Museum of Natural History Foundation
 - i.d.e.a. Museum Foundation
 - Foundation for Mesa Parks and Recreation

Agreements with Nonprofit Support Organizations

What did
we audit
and why?

-
- We did not audit the NPSOs.
 - We looked at the agreements, the underlying relationships, and City staff's involvement.
 - The goal was to identify relevant risks and ensure effective internal controls are in place.

Agreements with Nonprofit Support Organizations

What did we find?

- Each relationship is unique.
- Internal controls need improvement.
- Concerns fell under 3 categories:
 - Written agreements
 - Staff activities
 - Grants

Agreements with Nonprofit Support Organizations

What did we recommend?

Written Agreements (Summary of 8 recs.)

Written agreements should:

- Clearly define relationships, roles and responsibilities, including:
 - Nature and limitations of relationship – separate entities with defined roles.
 - Nature and amount of City staff support.
- Prohibit City staff from serving as officers or voting board members.
- Specify manner and frequency of reporting and reimbursements.

Agreements with Nonprofit Support Organizations

What did we recommend?

Staff Activities (Summary of 8 recs.)

- Comply with all City policies, even if activity is funded by NPSO. This includes travel and any other purchases of goods or services.
- No direct use of NPSO funds by City staff:
 - No NPSO credit cards issued to employees.
 - No funds paid directly to employee by NPSO.
- Process cash/check/cc transactions using City systems and deposit funds into City accounts.
- Pass through NPSO revenue (i.e. memberships) per agreed-upon schedule.
- Process reimbursements on schedule.

Agreements with Nonprofit Support Organizations

What did we recommend?

Grants (Summary of 3 recs.)

- Grant-related information and documents should be maintained in a central repository, accessible to those who need it.
- Staff should carefully review grant award documents to ensure the grantee is accurately identified (i.e. awarded to City or NPSO).
- Arts and Culture Department should develop policies and procedures for grant administration.

Agreements with Nonprofit Support Organizations

Management's Response

-
- A response to each recommendation is included in the report.
 - To summarize, management has agreed with the recommendations and will be implementing the changes.
 - We will remain engaged and in communication with all parties throughout the process, to help ensure the changes are successfully implemented.

Golf Concessions Contracts

Report Date: 11/27/2018

An audit of Dobson Ranch Golf Course and
Dobson's Restaurant concessions contracts.

Golf Concessions Contracts

What did
we audit
and why?

-
- Compliance with contract terms.
 - Impact of revenue sharing structure.
 - Audit was requested by PRCF, in anticipation of current contracts expiring in May 2019.

Golf Concessions Contracts

What did we find?

- Overall compliance with contract terms.
 - Revenue accurately recorded, split, and paid on time.
 - Adequate controls to safeguard assets and cash.
- No material findings; minor opportunities for improvement were discussed with management.
- Current contracts do not provide:
 - Equitable sharing of revenues, costs, and risks.
 - Specific performance objectives or metrics.

Golf Concessions Contracts

What did we recommend?

- Restructure and rebid contracts to provide more equitable arrangement and better meet the needs of the City.
- Incorporate specific performance objectives and metrics.

Golf Concessions Contracts

Management's Response

- We did not request a formal response.
- Management agrees with our recommendations and new RFP has already been issued.

Eastmark CFD

Report Date: 11/29/2018

An audit of internal controls related to
the financial administration of Eastmark CFD#1.

Eastmark CFD

What did we audit and why?

- Eastmark CFD assessments, revenues, and expenses for fiscal year 2018.
- The goal was to determine whether effective controls are in place to provide reasonable assurance¹ that Eastmark CFD costs and revenues are accurately and completely accounted for and collected.

¹ The term “reasonable assurance” in this context is not intended to express an auditor’s opinion on the financial statements of the CFD. The CFD’s financial statements are audited annually by the City’s external auditors. Our auditing procedures were applied only within the stated scope of this internal audit.

Eastmark CFD

What did we find?

The City is recovering some, but not all, eligible expenses associated with the CFD.

- A portion of fringe benefit costs were omitted when personal services expenses were posted to the fund.
- Some eligible staff time was not charged to the fund.

Eastmark CFD

What did we recommend?

-
- Periodically review financial data to ensure all eligible costs are recorded.
 - Remind employees doing CFD related work to charge those hours to the CFD fund.

Eastmark CFD

Management's Response

- Responses are included in the report.
- Management agrees with our recommendations and is increasing oversight to ensure all eligible costs are recovered.

Citywide Cash Handling

Report Date: 6/30/2018

Annual report on citywide auditing of
cash handling, change funds, and petty cash.

Citywide Cash Handling

What did we audit and why?

- Throughout the year, citywide, we verify:
 - Compliance with City policies and procedures.
 - Petty cash and change fund balances.
- The goals are:
 - Early detection of issues to avoid significant losses.
 - Deterrence and consistent reinforcement of compliance.
 - Relationships – answer questions/concerns; offer assistance when possible.

Citywide Cash Handling

What did we find?

- Cash handled by City staff exceeds \$1M annually.
- No material discrepancies in fund balances.
- Overall, effective processes in place to safeguard cash.
- ✓ Prior year recommendation (policy update) was fully implemented.

Questions?

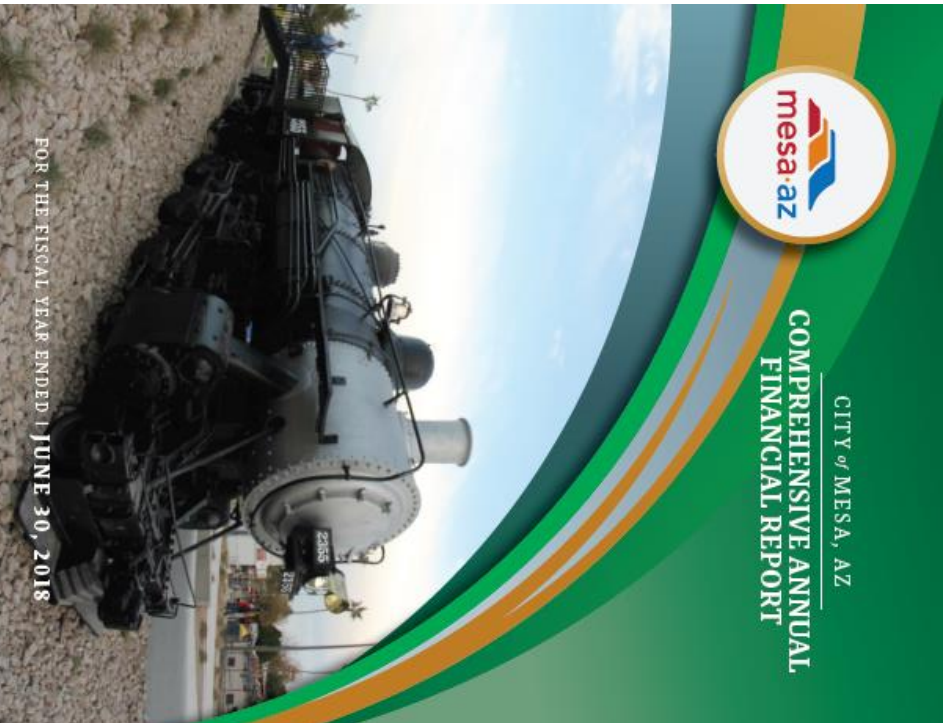
OVERVIEW OF FISCAL YEAR 2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Audit, Finance and Enterprise Committee
December 10, 2018

Irma Ashworth
Finance Director



COMPREHENSIVE ANNUAL FINANCIAL REPORT

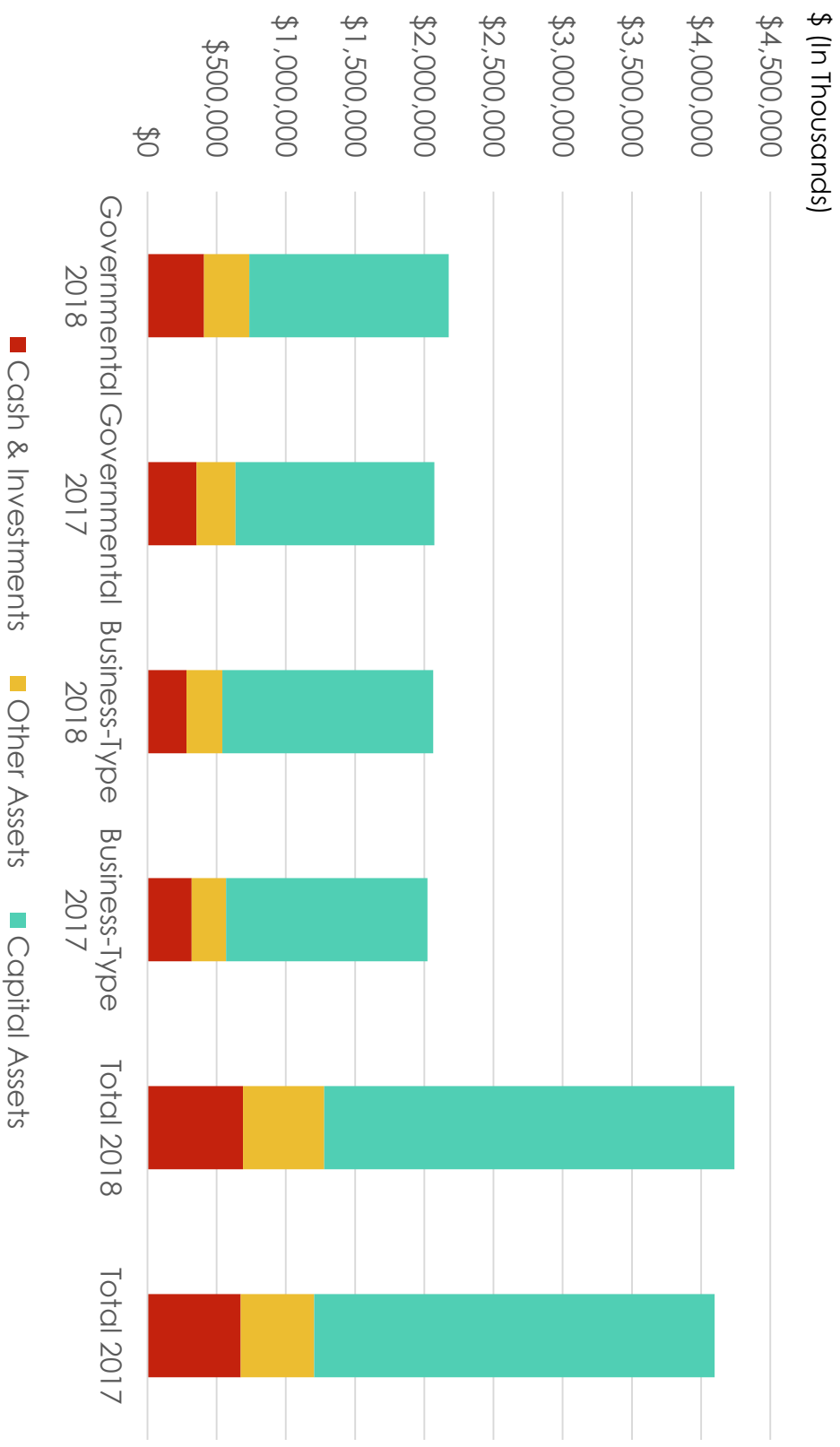


- Unmodified report issued
- No Material findings or adjustments
- Follows Generally Accepted Accounting Principles (GAAP)
- Complies with Governmental Accounting Standards Board (GASB)

GASB STATEMENT NO. 75 ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

- New accounting standard for fiscal year 2018.
- Requires governments to record full amount of OPEB liabilities in the financial statements. Previously a portion of OPEB liabilities were recorded, and full amount included in footnote disclosure.
- Expanded the OPEB footnote disclosures and added several Required Supplementary schedules.
- OPEB liability on the City's Net Position increased by \$200.6 million as a result of implementing GASB 75

TOTAL ASSETS AT JUNE 30, 2018 \$4.2 BILLION

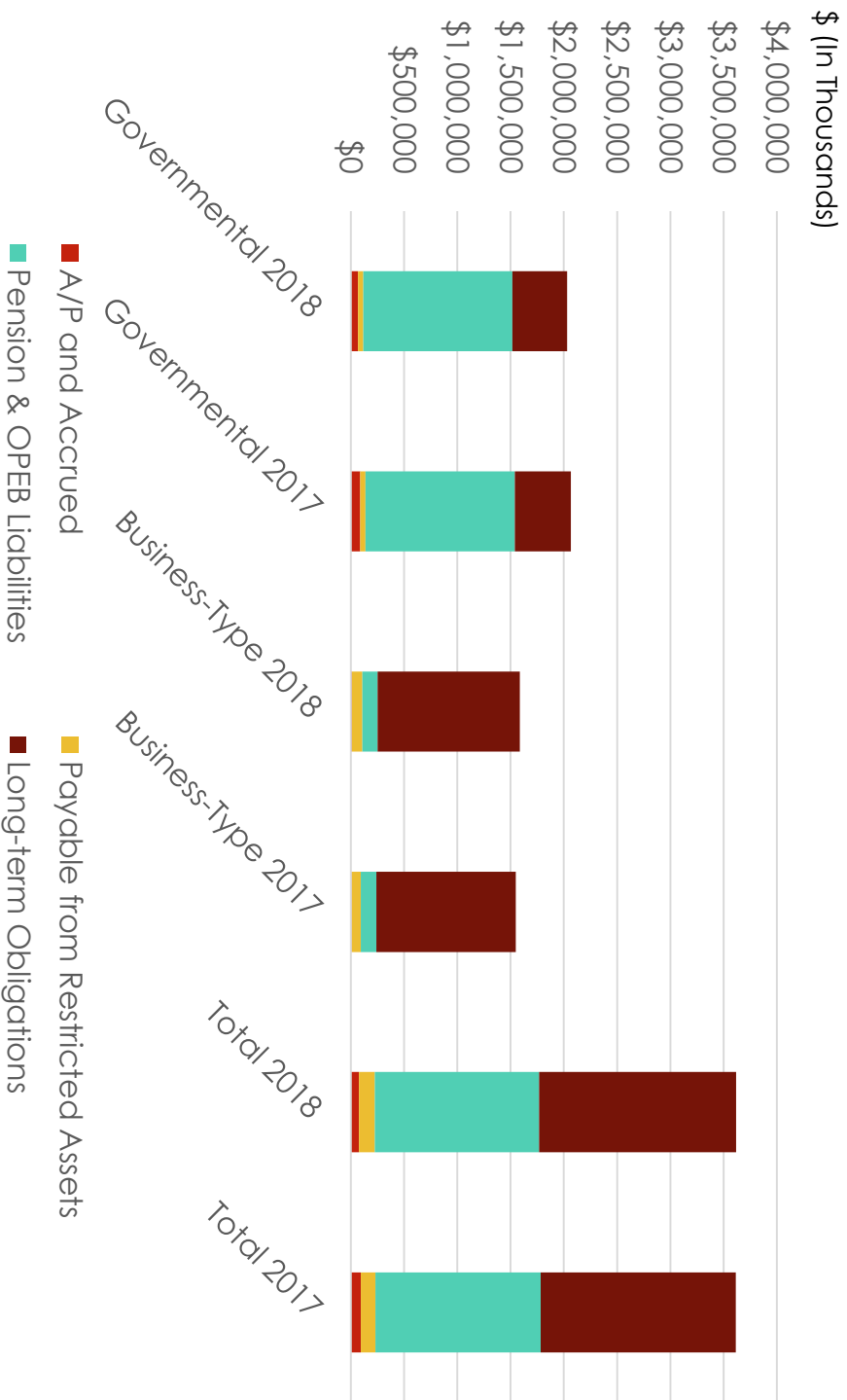


CASH AND INVESTMENTS

BALANCES AS OF JUNE 30, 2018

Cash	\$ 24 M
Investment in Local Govt. Investment Pool	118
Investment in Insured Cash Sweep Accounts	15
Cash with Trustee and Fiscal Agents	100
Long-Term Investments	<u>444</u>
Total Pooled Cash and Investments	<u>\$ 701 M</u>

TOTAL LIABILITIES AT JUNE 30, 2018 \$3.6 BILLION



Note: 2017 amounts are restated.

CITYWIDE LONG-TERM DEBT

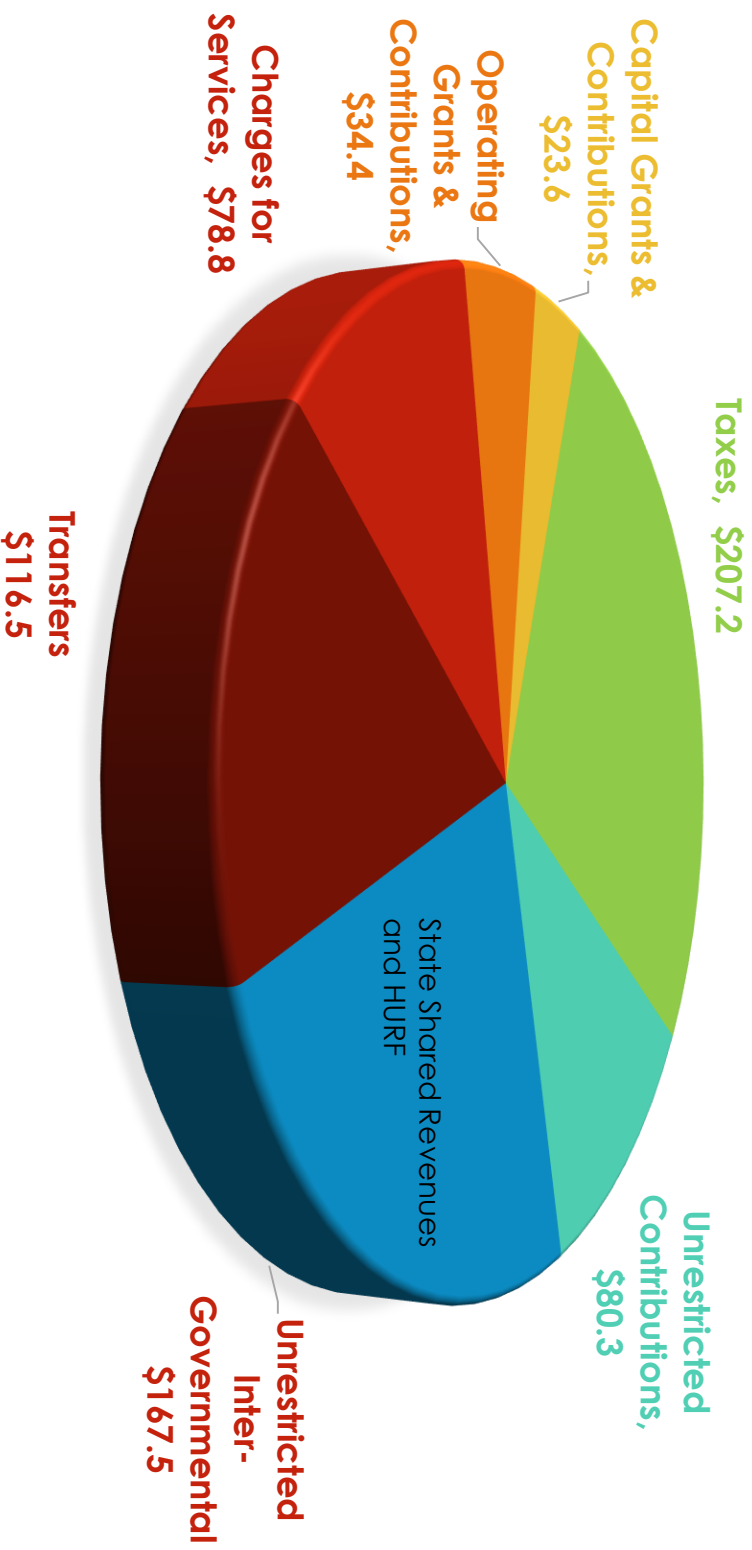
Issue Type	Principal Outstanding
General Obligation Bonds	\$ 366 M
Highway User Revenue Bonds	77
Revenue Bonds	1,227
Excise Tax Obligations	49
Special Assessment Bonds	1
Notes Payable	<u>2</u>
Total	<u>\$1,722 M</u>

Note: Eastmark CFD bonds not included above \$28.8 Million

REVENUE BY SOURCE - GOVERNMENTAL ACTIVITIES

\$(In Millions)

2018



FUNCTIONAL EXPENSES - GOVERNMENTAL ACTIVITIES

\$(In Millions)

2018

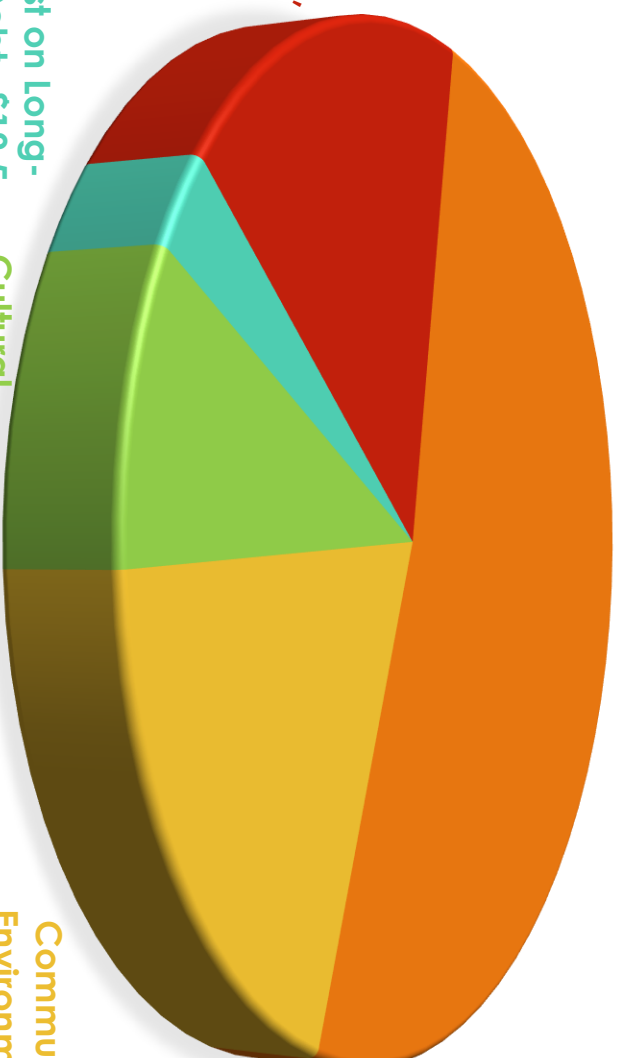
Public Safety,
\$334.9

General
Government,
\$105.1

Interest on Long-
Term Debt, \$19.5

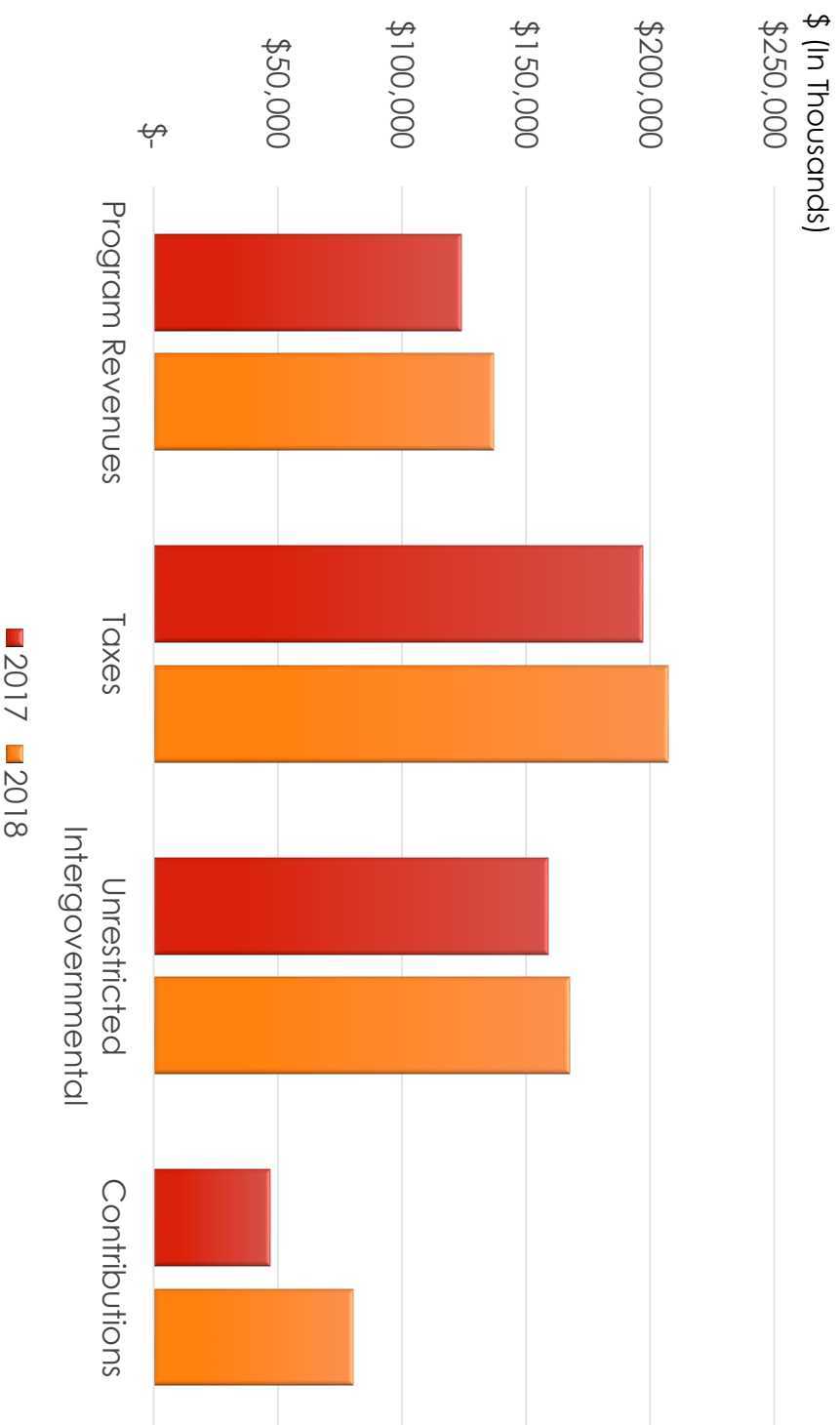
Cultural-
Recreational,
\$54.8

Community
Environment,
\$114.4



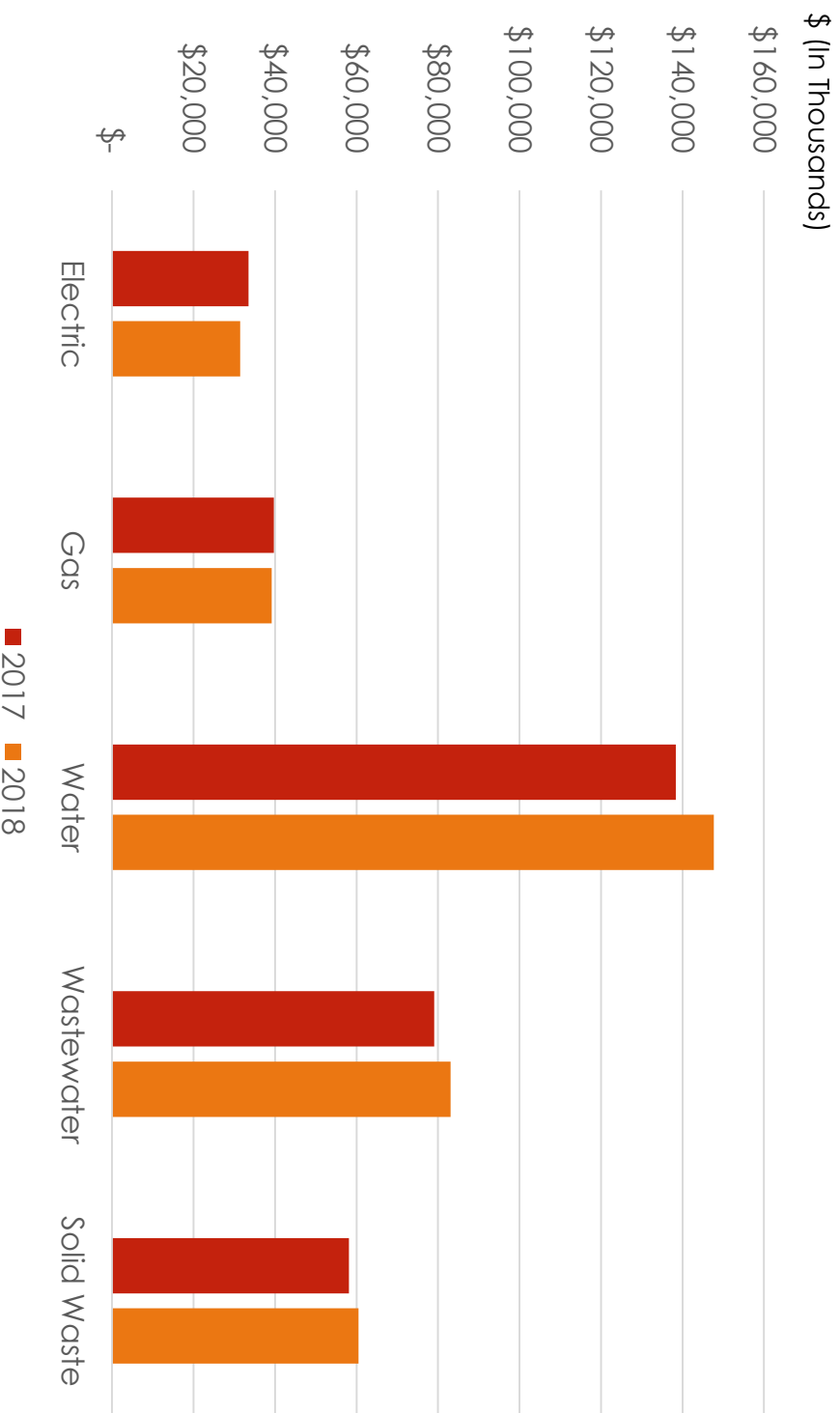
GOVERNMENTAL ACTIVITIES – REVENUES

FISCAL YEARS 2017 AND 2018



BUSINESS-TYPE ACTIVITIES – REVENUES

FISCAL YEARS 2017 AND 2018



Questions ?

Irma Ashworth

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