



## AUDIT, FINANCE & ENTERPRISE COMMITTEE

December 8, 2016

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 8, 2016, at 8:01 a.m.

### COMMITTEE PRESENT

Christopher Glover, Chairman  
Alex Finter  
Kevin Thompson

### COMMITTEE ABSENT

Christopher Brady, Ex Officio

### STAFF PRESENT

Jim Smith  
John Pombier

#### 1. Items from citizens present.

There were no items from citizens present.

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

##### 1. Police Off-Duty Employment Program (Follow-up Review)

City Auditor Jennifer Ruttman reported that this audit (**See Attachment 1**) was a review to determine whether the Police Department effectively implemented the action plans presented in response to the auditor's March 2015 report.

Ms. Ruttman explained that the Mesa Police Department (MPD) had eight recommendations, relating to policies, procedures, and program administration issues. She stated that during the April 2016 audit, only two of the eight recommendations had been implemented. (See Pages 1 and 2 of Attachment 1)

Ms. Ruttman pointed out that since May 2015, the MPD Inspections Unit had been conducting monthly inspections of off-duty activities and reporting their findings to management. She stated, however, that auditors did not find evidence of any significant effort to address the majority of issues reported between May 2015 and March 2016 as displayed on the graph. (See Page 2 of Attachment 1)

Ms. Ruttman remarked that during the months since the audit, the Hiring Unit was given the authority to monitor compliance and to decide whether officers would be suspended from off-duty assignments, rather than being administered through the officer's chain of command, improving officer compliance and accountability. She stated that increased attention was given

to address the specific policy violations identified by the Inspections Unit, and requested that those efforts continue.

In response to a question posed by Committeemember Finter, Assistant Chief Michael Soelberg explained that the MPD has reviewed Requests for Proposals (RFP) for an Off-Duty Administrator contract. He clarified that the cost would be funded through the administration fees and potentially awarded the week of December 12, 2016. He stated that implementation would take place on July 1, 2017, to allow schools and non-profits to incorporate this change into their FY 2017-18 budgets. He added that the implementation will assist in monitoring administration paperwork such as expired forms, insurance lapses and off-duty officers cleared for work by the system and will flag the accounts accordingly.

Ms. Ruttman stated that another follow-up review will take place in approximately nine months.

## 2. Central Mesa Light Rail Project Cost Recovery (Follow-up Review)

Ms. Ruttman reported that this audit (**See Attachment 2**) was a review to determine whether the Engineering Department effectively implemented the action plans presented in response to the auditor's March 2015 report.

Ms. Ruttman explained that the Engineering Department had six Corrective Action Plans (CAPs) to comply with the recommendations and that three of the six CAPs were successfully implemented. (See Pages 1 and 2 of Attachment 1) She noted that the follow-up audit showed that some of the processes were areas that needed improvement and therefore, did not meet all of the expectations. She stated that another follow-up audit will be completed in nine months to ensure that these changes were implemented and effective.

Ms. Ruttman stated that with the Central Mesa Light Rail Project complete, attention has turned to the Gilbert Road Light Rail Project, which is in the early phases. She said that staff would be reviewing processes to ensure that all eligible costs incurred are recovered, and that reliable processes and controls are in place and operating effectively.

## 3. Workers' Compensation Claims Management (Follow-up Review)

Ms. Ruttman reported that this audit (**See Attachment 3**) was a review to determine whether the Safety Services Division effectively implemented the action plans presented in response to the auditor's September 2015 report.

Ms. Ruttman stated that during the follow-up review, three of the four recommendations were successfully implemented, and one (CAP #1) was partially implemented. She added that the recommendation for the department is to complete the ongoing task of developing written procedures for all essential processes.

Ms. Ruttman stated that no additional follow-up review is planned at this time.

## 4. Payroll and Timekeeping

Ms. Ruttman reported that this audit (**See Attachment 4**) was to determine whether adequate internal controls are in place and operating effectively to provide reasonable assurance that

payroll transactions are authorized, accurate, and processed in accordance with applicable laws, regulations, and City policies; and that if errors and/or fraud were to occur, they would be identified and addressed in a timely manner. She added that the auditors followed up to determine the status of findings from a 2009 audit, for the purpose of identifying any previous concerns that may be ongoing in the current environment.

Ms. Ruttman explained that this audit report is the largest due to the number of processes involved in payroll, and time and labor, so for that reason she would highlight the more critical CAPs in terms of management involvement.

Ms. Ruttman highlighted CAP #4, Benefit Premiums for Employees on Extended Leave. (See Pages 10 and 11 of Attachment 4) She explained that the personnel rules describe the program in a way that it is not being administered. She clarified that the current policy states that once the employee has been on unpaid leave for more than 30 consecutive days, then the employee is responsible for the premiums as long as they maintain their employment status. She stated that historically, the policy has not been followed and pointed out that the City Manager's office will meet with the Human Resource (HR) and Benefits staff to decide whether changes to the personnel rules are necessary. She noted that if the policy stays as written, then employees should be billed accordingly.

Ms. Ruttman identified CAP #6, Assignment of Critical Staffing Overtime, (See Pages 14 through 16 of Attachment 4) which is when departments assign the appropriate number of employees overtime, in order to fill shifts when the minimum number of employees are not available due to sick leave, vacation, etc. She stated that the audit showed that some departments allow a small number of employees to work a disproportionate percentage of critical staffing overtime in comparison to their peers, rather than distributing the workload among a larger number of qualified employees. She added that in particular, the Police Department (PD) had a significant amount of disparity and inequity.

Ms. Ruttman explained that allowing employees that are close to retirement to work the majority of the overtime, affects the employee's higher monthly pension and the City's current and future pension costs. She emphasized that the increase in long-term pension costs could be reduced, if overtime were spread across a greater number of employees, including those who are not within their last few years of service. She added that this is not limited to the PD, but for all departments. She stated that the City Manager's office agreed to contact the departments that use critical staffing to come up with protocols to assign shifts in a way that meets all of the departments' operational needs.

Ms. Ruttman indicated that the Fire Department (FD) has a scheduling system that includes the qualifications of firefighters and tracks their hours, so when critical staff is needed, overtime is distributed evenly.

In response to a question posed by Committeemember Finter, Assistant Chief Michael Soelberg explained that the new off-duty system may have the capacity to mirror the FD's program (Telestaff) once the contract is in place. He stated that Kronos has an advanced scheduling application that has not been utilized, due to the fact that according to Time and Labor staff, is cost prohibitive due to the complexity and the limited use.

Mr. Soelberg indicated that the current policy explains when to call for critical staff but does not address the order of calling. He added that each patrol district is handling the critical staffing differently. He stated that when a call goes out for a critical staff for overtime it typically comes from holdovers (extending shift), rather than to the staff list. He reported that using the holdovers saves money due to the fact that the City does not pay for drive time and only pays for extended hours. He further explained that the patrol district makes assignments based on several factors including reliability and availability. He noted that the policy states that staff are to refer to the call list when notified more than two hours ahead of the shift, however, the list is not ranked in any order, there is no recordkeeping, and hours are tracked manually. He stated that staff will be working on consolidating a list for all patrol districts.

Committeemember Finter suggested that the PD utilize the software that has already been proven to work for the FD.

Committeemember Thompson pointed out that timekeeping for the PD has been an issue for a long time. He asked what best practices are in place throughout the country that would assist in making timekeeping easier and make auditing easier.

Assistant City Manager John Pombier responded by saying that staff has looked across the country and there are a variety of ways that police departments handle timekeeping. He stated that other cities have been effective in using Kronos within Police Departments. He explained that City management and Time and Labor staff need to start working together with police management to institute the aspects of Kronos and Telestaff that allow them to meet the goals the auditor has addressed. He emphasized that this issue must be addressed and is a priority.

Chairman Glover expressed the opinion that it is the culture of the PD to resist applying the functions of Kronos, which works for other police departments. He recalled that the PD has been having this issue since he has been on the Council. He pointed out to Mr. Soelberg that he never gave a definitive answer as to what, how, and when this issue will be resolved. He added that he was disappointed that City management has let this issue continue for so long and is hoping for a resolution within the next six months.

Ms. Ruttman pointed out that the issue is complicated and does not apply to only one group. She explained that major changes to the Kronos system were implemented as a result of federal law dictating how to pay non-exempt staff. She said that the Kronos upgrade is expected by mid-year 2017 and should address some of the user issues.

Ms. Ruttman stated that CAP #7, Compliance with Timekeeping Policies and Procedures (See Pages 17 through 19 of Attachment 4), should result in improved compliance after the Kronos system upgrade. She noted that the City did not have or need Time and Labor staff in the past, since those duties were handled by payroll, however, they are now needed to maintain compliance and control costs. She added that the auditors continually see improvements.

## 5. Water Resources Asset Management

Ms. Ruttman reported that this audit (**See Attachment 5**) was conducted to determine whether internal controls and processes related to Water Resources asset management are adequate to provide reasonable assurance that:

- Asset lifecycle, condition, and maintenance data are actively maintained and used to inform capital improvement planning.
- Asset information is complete and accurate.
- Critical risks related to asset management are minimized.

Ms. Ruttman remarked that the Water Resources Department has impressive systems in place to monitor and track data for the underground systems such as the sewer and water pipes running throughout the City. She stated that the engineers are maintaining extremely complicated data sets and have utilized industry best practices to make the systems work for the City of Mesa.

Ms. Ruttman pointed out that above ground assets, specifically the treatment plants and stations, are far more complicated and less uniform. She explained the importance of working within the resource constraints that are given and stated that management has already moved in that direction. She added that it is part of the departments strategic plan to have a comprehensive asset management program; that this has become a higher priority over the last year; and that this has already been accomplished with underground assets. She stated that additional resources may be needed in order to complete these goals, but utilizing tracking, predictive modeling, and available data, the City can make informed decisions that will save costs in the long run.

Ms. Ruttman stated that a follow-up review will be done in one year.

#### 6. Communications Procurement & Inventory Management

Ms. Ruttman reported that this audit (**See Attachment 6**) was conducted to evaluate the effectiveness of internal controls related to procurement and inventory management. She explained that the Communications Department handles recommendations, estimated costs, and maintains the communications infrastructure throughout the city.

Ms. Ruttman highlighted three areas of improvement:

- Chain of Custody – Procedures are in place and should be followed each time.
- Disposing of obsolete inventory and identify items to be disposed.
- Document Retention – Follow through on retention and disposition as outlined by City policy and State requirements.

Ms. Ruttman stated that a follow-up review will be done in one year.

#### 7. Continuous Auditing of Cash Funds (FY2016 Report)

Ms. Ruttman reported that this audit (**See Attachment 7**) was conducted to determine whether adequate internal controls are in place and operating effectively to safeguard cash funds throughout the City.

Ms. Ruttman explained that cash positions have high turnover rates; that with the increased usage of procurement cards there has been a decrease in the use of petty cash funds; and that auditors conduct unannounced visits throughout the year to ensure petty cash funds are managed according to policy.

Ms. Ruttman pointed out that with these changes, the auditors have identified fewer discrepancies. She noted that one area of improvement is for departments to notify Accounting when changes in fund custodians occurs and to recommend that an appropriate time frame for notification be added to the Petty Cash and Change Fund policy.

Chairman Glover thanked staff for the presentation.

Ms. Ruttman thanked Committeemember Finter for his years of service and stated that it was a pleasure working with him.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 8:42 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 8<sup>th</sup> day of December, 2016. I further certify that the meeting was duly called and held and that a quorum was present.

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DEE ANN MICKELSEN, CITY CLERK

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(Attachments – 7)

## **FOLLOW-UP REVIEW**

**CITY AUDITOR**

<b>Report Date:</b>	<b>August 18, 2016</b>
<b>Department:</b>	<b>Police</b>
<b>Subject:</b>	<b>Off Duty Employment Program</b>
<b>Lead Auditor:</b>	<b>Karen Newman, Sr. Internal Auditor</b>

### **OBJECTIVE**

The objective of this review was to determine whether the Police Department effectively implemented the action plans presented in response to our March 2015 Off Duty Employment Program audit report.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we reviewed departmental procedures, interviewed staff, analyzed data from the MPD Off Duty Jobs database and the City's Kronos timekeeping system, and reviewed MPD Inspections Unit reports and related correspondence.

### **BACKGROUND**

In March 2015, we issued a report on our audit of the Police Off Duty Employment Program. The objective of that audit was to evaluate internal controls related to the program. The audit report included the following eight recommendations:

1. MPD should implement more effective internal controls to ensure that Officers are not scheduled and/or paid for more than one job at a time, that Contract Off Duty employers are billed accurately, and that all hours worked (both on and off duty) are accurately recorded.
2. To ensure compliance with all requirements of DPM 1.2.115, Off Duty Employment Protocols, management should implement additional program oversight and continuous monitoring by the MPD Inspections Unit. This should include a formal structure for corrective action and accountability when violations are detected.
3. MPD should implement controls, such as additional management oversight, to ensure that Officers working Off Duty jobs do not exceed the maximum combined number of work hours permitted by Department policy.
4. MPD should implement controls to ensure that signed Temporary Employment Agreements are obtained from all Contract Off Duty employers, maintained in a retrievable manner, and retained in accordance with records retention requirements. In addition, these Agreements should be subject to renewal on a periodic basis. Lastly, Off Duty job requests should not be accepted from any employer without the required Agreement on file.
5. MPD should require that all hours worked on Off Duty jobs, and all Off Duty vehicle usage, be fully and accurately documented in accordance with Department policy. Compliance with these

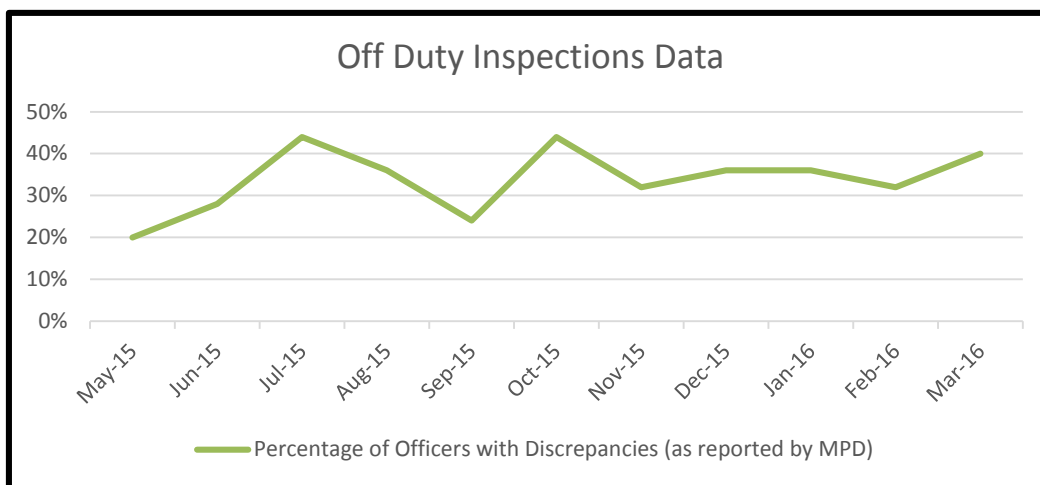
requirements should be actively monitored, and non-compliance should result in suspension of eligibility for Off Duty assignments.

6. MPD should implement controls to ensure that current insurance certificates are periodically obtained from employers, as needed to verify that required coverage is maintained. Off Duty job requests should not be accepted from any employer without the required insurance documents on file.
7. MPD should implement controls to ensure that only Officers with current, approved Annual Work Permits on file are permitted to work Off Duty jobs.
8. The forms required under DPM 1.2.115 should be updated to ensure they capture the necessary information in the most efficient and effective way possible, incorporating available electronic solutions.

### **CONCLUSION**

While some process improvements have been realized, the number of policy violations detected during audit testing has not changed significantly since the original audit report was issued. In addition, as of April 2016, only 2 of the 8 recommendations (#5 and #7, above) had been fully/successfully implemented, and the remaining 6 were still in progress. A complete list of the original corrective action plans, along with detailed information regarding their implementation status, is presented in the attached Appendix.

It should be noted that the MPD Inspections Unit has been conducting monthly inspections of Off Duty activities since May 2015. Each month, they perform detailed compliance testing of a random sample of Officers, and they report their findings to MPD Executive Staff. The reports are then provided to Command Staff in the Officers' various work areas. However, we did not find evidence of any significant effort to address the majority of issues reported between May 2015 and March 2016, as shown below:



During the months since the audit, the MPD (with the exception of the Inspections Unit) has directed more effort towards replacing/improving the Off Duty database system than on improving Officer compliance and accountability. However, after this follow-up review began,



there was an increase in attention given to addressing the specific policy violations identified by the Inspections Unit. We are recommending that these efforts continue. Our updated recommendations, along with responses from MPD, are listed below. We plan to conduct another follow-up review in approximately 9 months.

## **RECOMMENDATIONS & RESPONSES**

- 1. Recommendation:** MPD should implement *effective* internal controls to ensure compliance with Off Duty Program requirements. (i.e. Officers are not scheduled and/or paid for more than one job at a time; Off Duty employers are billed accurately; all hours worked (both on and off duty) are accurately recorded; Officers do not exceed the maximum combined number of work hours; Officers do not work Off Duty jobs while On Call or during other prohibited times; all required forms are obtained and completed correctly; etc.)

### **Response:**

Agree.

### **Implementation Plan:**

There have been four policy revisions to the Off Duty Employment Protocols Policy (DPM 1.2.115) since the audit in March 2015. Revisions to the Off Duty Hiring Coordinator responsibilities were also rewritten and formalized in February 2016 to concur with the audit recommendations and findings. A new Off-Duty Timesheet (DPM 1.2.115F4) form was implemented to ensure timely accountability of hours worked, accurate recording, and archival information for every officer working in an off duty capacity.

A Department wide education plan was initiated in March 2015 through August 2015 to educate all sworn personnel with the audit compliance and formalized Off-Duty Employment updates. These efforts included:

- Posting Off Duty Policy PowerPoint on Just the Fact's supplemented with briefing trainings conducted by the Hiring and Inspections Units.
- Emails were sent by the HR Commander to affected Division Commander's regarding personnel not in compliance. In March 2016 these discrepancies (approximately 173 in total since Sept. 2015) were resent to all affected division Commanders to ensure accountability of every Off-Duty discrepancy.
- Upon reviewing the discrepancy responses, it became clear in addition to education efforts we needed to enforce protocols for accountability.
- As a result of these changes, starting in May 2016 we saw significant reductions in Off-Duty Employment discrepancies. In May 2016 we had three discrepancies, in June 2016 we had four discrepancies, and in July 2016 we had two discrepancies.
- In August 2016, the Human Resources Commander placed four employees on Off-Duty Employment probation for 90 days.
- Unfortunately, City ITD were unable to develop online Off-Duty tracking system which we intended to use to provide better accountability for our Off-Duty program.

We are currently in the process of posting an RFP to solicit vendors who can provide this service for our department.

- See "Recommendation 2" for additional internal controls which are being implemented.

**Individual or Position Responsible:**

Mesa PD Inspections Unit  
Human Resources Commander

**Estimated Completion Date:**

9/1/2016

2. **Recommendation:** MPD should implement and enforce protocols for accountability, which should apply to all Off Duty Officers and their supervisors.

**Response:**

Agree.

**Implementation Plan:**

In addition to the above listed implementations, the following have also been instituted since September 2015:

- Once an officer is selected for an Off-Duty job, his or her supervisor is notified via email to ensure officers are not exceeding maximum combined hours/not on call during prohibited times, not flexing regular schedules to accommodate off duty, etc.
- We are currently updating policy to include the following changes:
  - Kronos and the Off-Duty Timesheet are the official records when determining time worked.
  - These records will be used to verify compliance with the mandatory 15-minute break. Fifteen minute breaks are determined at the end of shift. For example:
    - If an employee times out in Kronos at 1555 hours they are compensated until 1600 hours; therefore, an Off-Duty shift cannot be commenced until 1615 hours. The mandatory Off-Duty Officer Time Sheet must reflect actual start/end time.
    - If an employee times out in Kronos at 1608 hours they are compensated until 1615 hours; therefore, an Off-Duty shift cannot be commenced until 1630 hours. The mandatory Off-Duty Officer Time Sheet must reflect actual start/end time.
  - The only exception shall be when the employee is mandated to work the Off-Duty job while on mandatory Standby.
- Exceptions to the 16-hour restriction, the 8-hour rest period, the 15-minute break, or the Standby exception must be documented and approved by a Lieutenant and documented on the Off-Duty Officer Timesheet.
- The Inspections Unit will continue to conduct monthly random inspections on employee's working Off-Duty jobs. The Human Resources Commander will review

the monthly reports and notify the employee's chain of command of all discrepancies.

- Employees chain of command are required to provide a written response to the Human Resources Commander explaining corrective action taken.
- The Human Resources Commander will review all responses to ensure consistency and appropriateness of measures taken to reconcile the discrepancy.
  - The Human Resources Commander will confer with the employee's Commander to determine if the employee will be placed on probation or an investigation needs to occur which may result in Off-Duty suspension.
- If an employee is placed on Off-Duty probation the employee will be audited each month while on probation to ensure compliance. Further violations will result in a complaint and if sustained, may result in a suspension from Off-Duty Employment.
- In addition to the Inspections Unit's report, the Hiring Unit Sergeant will conduct monthly audits of all Off-Duty forms which include:
  - Notice of Outside Employment forms
  - Off-Duty Annual Work Permits
  - Off-Duty Officer Timesheets
  - Off-Duty Patrol Vehicle Usage forms
  - Temporary Employment Agreements
    - Which includes the terms and conditions (Workers' Compensation)
- Beginning in September 2016, the Human Resources Commander will provide a monthly report to the Community Engagement and Employee Services Bureau Assistant Chief detailing the results of the Inspections Unit audit, the Hiring Unit Sergeant audit, and any corrective action taken.

**Individual or Position Responsible:**

Human Resources Commander

**Estimated Completion Date:**

9/1/2016

3. **Recommendation:** MPD should update the Temporary Employment Agreement to include insurance coverage requirements; and should ensure that proof of insurance documents obtained from employers list the City of Mesa Police Department as an Additional Insured (not just a Certificate Holder). We also recommend that forms and policies that are designed to provide legal/liability protection be reviewed for sufficiency by legal counsel.

**Response:**

Agree.

**Implementation Plan:**

The MPD Hiring Unit has ensured Temporary Employment Agreements are completed prior to any authorization of Off-Duty Employment (this includes insurance documents). The current Temporary Employment Agreement had been approved by Mesa PD legal counsel and we were unaware this form needed to be revised until the follow up Audit Report.

Mesa PD and City of Mesa attorneys are currently reviewing the wording of our insurance requirements. We are waiting for final revisions which will encompass worker's compensation, liability coverage as well as indemnification clauses.

Once the revisions are completed the new forms will be utilized for all existing and future employment contracts. We anticipate receiving these updates by the end of August.

**Individual or Position Responsible:**

Human Resources Commander

**Estimated Completion Date:**

9/1/2016

**APPENDIX / 2015 CAP IMPLEMENTATION STATUS as of MAY 2016**

✓ = Implemented                      ◆ = In Progress                      X = Not Implemented






<u>Corrective Action</u>	<u>Implementation Status</u>
<b>CAP#1: Overlapping of Off Duty/On Duty Hours; Unreliable Timekeeping Data.</b>	
<p><b>Recommendation 1-1:</b> MPD should implement more effective internal controls to ensure that Officers are not scheduled and/or paid for more than one job at a time, that Contract Off Duty employers are billed accurately, and that all hours worked (both on and off duty) are accurately recorded. To that end, we recommend the following:</p> <ul style="list-style-type: none"> <li>A. Police Officers, like other non-exempt City employees, should be required to electronically capture their exact start and end times for all City work, using a time clock, computer, or other mobile device. To facilitate this, the City now has a Kronos mobile application that enables users to clock in or out in seconds, from anywhere, using a smartphone.</li> <li>B. The MPD Off Duty Hiring Coordinator should develop an improved process to ensure that all hours worked on Off Duty jobs (both City and Contract) are accurately reflected in the Off Duty database and all Contract Off Duty employers are billed accurately.</li> <li>C. Officers should be prohibited from accepting Off Duty assignments that overlap with their regularly scheduled work hours. Assignments that immediately follow or precede a regular work shift should only be permitted when no location change or transition time is needed.</li> </ul> <p><b>Management Response:</b>  <b>1.1.A:</b> The police department historically provided justification as to the business need to opt out of Kronos. However, as a result of this audit, and previous internal time keeping issues, the MPD has noted this as an area for improvement. The MPD agrees there is a significant need to electronically capture exact start and end times utilizing a</p>	<p><b>In Progress            (Implemented but Not Effective)</b> ◆</p> <p>The following improvements have been implemented: Kronos is now used to capture timekeeping data; record keeping in the Off Duty system has improved; Off-Duty Timesheets are now obtained from Officers; and the MPD Inspections Unit performs monthly compliance checks of Off Duty activities.</p> <p>However, despite these efforts, there has not been a significant improvement in the number of discrepancies found. Monthly reports issued by the MPD Inspections Unit confirm this as well. Their findings and ours include a variety of policy violations, with little change over the past year.</p> <p>Additionally, the plan to design a new web-based program for the Off Duty program was not feasible, so MPD is reviewing other options to implement system improvements.</p>

**APPENDIX / 2015 CAP IMPLEMENTATION STATUS as of MAY 2016**

✓ = Implemented      ◆ = In Progress      X = Not Implemented



<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>time clock, computer or other mobile device, however, the MPD has also noted there are some instances where it may be necessary to manually input employees' start and/or end times.</p> <p>Accurate timekeeping can be vastly improved through better awareness of this issue by all sworn supervisors in addition to a random monthly compliance check. The MPD Inspections Unit can develop a random monthly inspection of those individuals and their supervisors whom work off-duty jobs. Similar inspections (to various areas of MPD) are conducted on a monthly basis by the Inspections Unit.</p> <p><b>1.1.B:</b> In October 2014, the off duty program system was being evaluated in an effort to improve accuracy and efficiency. As part of this evaluation, City of Mesa ITD worked with Mesa PD IT and the Off-Duty Hiring supervisors to design a web-based program, which will alleviate these inefficiencies and increase accountability and accuracy of the Off-Duty Hiring recordkeeping. This program has been scheduled as a 400-hour job by City ITD engineers and is slotted to begin development in October 2015.</p> <p>Off-Duty Hiring Coordinator to ensure all Off-Duty Time Sheets are received by members not later than 72 hours after the completion of off-duty work.</p> <p>The MPD Inspections Unit will conduct a random inspection on a quarterly basis to ensure all hours worked are accurately reflected.</p> <p><b>1.1.C:</b> As of October 2014, the off-duty hiring policy has been under review. As part of this review, language will be added indicating a prohibition of overlap with regularly scheduled work hours and that of off-duty work. As well, a minimum time gap will be proposed between off-duty work hours and regular work hours. An exception will be</p>		

**APPENDIX / 2015 CAP IMPLEMENTATION STATUS as of MAY 2016**

 = Implemented  = In Progress  = Not Implemented		
<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>permitted for those instances where a location change or transition time is not needed.</p> <p>This policy update will be included as an inspection item on a quarterly basis by the MPD's Inspections Unit.</p>		
<p><b>Recommendation 1-2:</b> To ensure compliance with all requirements of DPM 1.2.115, Off Duty Employment Protocols, management should implement additional program oversight and continuous monitoring by the MPD Inspections Unit. This should include a formal structure for corrective action and accountability when violations are detected.</p> <p><b>Management Response:</b> In addition to regular supervision of the Off Duty Hiring Coordinator, the MPD's Inspections Unit will develop monthly and quarterly inspections as an oversight mechanism for the off-duty hiring program. These inspections will ensure policies and procedures are consistent with off-duty hiring practices. The reports of these inspections will be routed to MPD Executive Staff for review.</p>	<p><b>In Progress (Partially Implemented)</b></p> <p>The MPD Inspections Unit has been performing monthly compliance checks since May 2015. The results of those inspections are reported to MPD Executive Staff; however, no formal structure for corrective action and accountability has been established. Therefore, no significant improvement had occurred as of May 2016.</p>	
<p><b>CAP#2: Combined Total Work Hours Exceeded the Allowable Maximum.</b></p>		
<p><b>Recommendation 2-1:</b> MPD should implement controls, such as additional management oversight, to ensure that Officers working Off Duty jobs do not exceed the maximum combined number of work hours permitted by Department policy.</p> <p><b>Management Response:</b> Incorporate this recommendation into the monthly/quarterly inspections.</p> <p>Conduct awareness education for Police Department Supervisors to monitor employees working off-duty jobs, so they are not working over the maximum allowable time between regular duty time and off-duty time.</p>	<p><b>In Progress (Implemented but Not Effective)</b></p> <p>For each of the past 14 months, the MPD Inspections Unit has recommended to Executive Staff that they: "Continue to educate employees..." but violations (including excessive hours) have continued to occur.</p>	






**APPENDIX / 2015 CAP IMPLEMENTATION STATUS as of MAY 2016**

 = Implemented       = In Progress      **X** = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>	
<b>CAP#3: Non-Compliance with Documentation Requirements.</b>		
<p><b>Recommendation 3-1:</b> MPD should implement controls to ensure that signed Temporary Employment Agreements are obtained from all Contract Off Duty employers, maintained in a retrievable manner, and retained in accordance with records retention requirements. In addition, these Agreements should be subject to renewal on a periodic basis. Lastly, Off Duty job requests should not be accepted from any employer without the required Agreement on file.</p> <p><b>Management Response:</b> Update MPD policy to include an annual renewal process and create a tracking system to utilize by off duty hiring coordinator. This tracking system will identify when a company is nearing the annual expiration of the Temporary Employment Agreement. Once near expiration, the off-duty hiring coordinator will facilitate the renewal of the agreement with contractors. A file system will be created to ensure accessibility to the agreement.</p>	<p><b>In Progress (Implemented but Not Effective)</b></p> <p>Although significant improvements have been made in obtaining, tracking, and filing the required documentation, we still found several instances wherein Temporary Employment Agreements either were not provided or were not complete.</p>	
<p><b>Recommendation 3-2:</b> MPD should require that all hours worked on Off Duty jobs, and all Off Duty vehicle usage, be fully and accurately documented in accordance with Department policy. Compliance with these requirements should be actively monitored, and non-compliance should result in suspension of eligibility for Off Duty assignments.</p> <p>Update policy to reflect repercussion for failing to complete required documentation (off-duty time sheet) in a timely manner including a scaled suspension for off-duty employment violations.</p> <p><b>Management Response:</b> Implement protocols for the off-duty hiring coordinator to notify members and members'</p>	<p><b>Implemented</b></p> <p>All Uniform Off Duty Timesheets and Patrol Vehicle Usage Forms requested were provided.</p>	




**APPENDIX / 2015 CAP IMPLEMENTATION STATUS as of MAY 2016**

 = Implemented  = In Progress  = Not Implemented		
<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>supervisors when documentation is not completed timely and accurately.</p> <p>Implement quarterly inspection as an independent compliance measure.</p>		
<p><b>Recommendation 3-3:</b> MPD should implement controls to ensure that current insurance certificates are periodically obtained from employers, as needed to verify that required coverage is maintained. Off Duty job requests should not be accepted from any employer without the required insurance documents on file.</p> <p><b>Management Response:</b> Implement this recommendation in conjunction with recommendation 3-1.</p>	<p><b>In Progress</b></p> <p>We found significant improvement in this area, but there were several instances in which the insurance forms were not current or were completed incorrectly.</p>	
<p><b>Recommendation 3-4:</b> MPD should implement controls to ensure that only Officers with current, approved Annual Work Permits on file are permitted to work Off Duty jobs.</p> <p><b>Management Response:</b> In October 2014, the off-duty program system was being evaluated in an effort to improve accuracy and efficiency. As part of this evaluation, City of Mesa ITD worked with Mesa PD IT and the Off-Duty Hiring supervisors to design a web-based program, which will alleviate these inefficiencies and increase accountability and accuracy of the Off-Duty Hiring recordkeeping. This program has been scheduled as a 400-hour job by City ITD engineers and is slotted to begin development in October 2015.</p> <p>Increased supervisory oversight off the Off-Duty Coordinator will ensure accurate and timely Annual Work Permits are on file.</p> <p>As an oversight mechanism, The MPD Inspections Unit will conduct a random inspection on a quarterly basis to ensure all hours worked are accurately reflected.</p>	<p><b>Implemented</b></p> <p>All Annual Work Permits requested were provided.</p>	

**APPENDIX / 2015 CAP IMPLEMENTATION STATUS as of MAY 2016**

 = Implemented       = In Progress      **X** = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>	
<p><b>Recommendation 3-5:</b> The forms required under DPM 1.2.115 should be updated to ensure they capture the necessary information in the most efficient and effective way possible, incorporating available electronic solutions.</p> <p><b>Management Response:</b> As of October 2014, the off-duty hiring policy has been under review. As part of this policy review, the off-duty hiring forms are being reviewed and updated where appropriate. As well, the web-based program, as discussed, will incorporate these forms into an electronic system.</p>	<p><b>In Progress</b></p> <p>The majority of forms required under DPM 1.2.115 have been reviewed and updated where appropriate.</p> <p>However, according to the Deputy City Attorney responsible for Risk Management, the following changes are needed:</p> <ol style="list-style-type: none"> <li>1) The MPD Temporary Employment Agreement should be updated to include specific insurance coverage requirements.</li> <li>2) Listing the MPD as a "Certificate Holder" on the proof of General Liability Insurance is not adequate – they must be listed as an "Additional Insured".</li> </ol>	

## FOLLOW-UP REVIEW

## CITY AUDITOR

<b>Report Date:</b>	<b>October 12, 2016</b>
<b>Department:</b>	<b>Engineering</b>
<b>Subject:</b>	<b>Central Mesa Light Rail Project Cost Recovery</b>
<b>Lead Auditor:</b>	<b>Tami Steadman</b>

### **OBJECTIVE**

The objective of this review was to determine whether the Engineering Department effectively implemented the action plans presented in response to our March 2015 Central Mesa Light Rail Project Cost Recovery audit report.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we reviewed departmental procedures, interviewed staff, and analyzed project financial activity from inception through June 2016.

### **BACKGROUND**

In March 2015, we issued a report on our audit of Central Mesa Light Rail Project Cost Recovery. The objective of that audit was to determine whether all reimbursable light rail project costs are being captured and recovered in accordance with applicable agreements. The audit report included six Corrective Action Plans (CAPs) with recommendations and responses from management.

### **CONCLUSION**

Three of the six corrective action plans were successfully implemented. Below is a summarized listing of the recommendations and their implementation status at the time of this follow-up review. A complete list of the original corrective action plans, recommendations, and responses, along with detailed information regarding their implementation status, is presented in the attached Appendix.

- 1. Recommendation:** Develop written procedures for how to correctly calculate and obtain reimbursement for eligible project costs.

**Status:** Not Effectively Implemented. Written procedures were created, but did not include the controls necessary to ensure that all eligible costs were accurately calculated and submitted for reimbursement.

- 2. Recommendation:** Reconcile previous reimbursement requests to system reports and recalculate payroll and indirect costs. Submit any previously omitted costs for reimbursement.

**Status:** Not Effectively Implemented. Payroll and indirect costs were recalculated and submitted for reimbursement, but there were errors in the recalculations, so some of the costs were not recovered.

- 3. Recommendation:** Utilize the budget change process described in the Design and Construction agreement and formally request necessary budget increases as soon as possible.

**Status:** Implemented.

- 4. Recommendation:** Identify reimbursable fringe benefit costs for medical and dental insurance and include these costs in all future reimbursement requests. [Note: It was also recommended that other departments consider whether this issue impacts their grant-funded projects.]

**Status:** Not Implemented. Accounting staff developed and implemented a process to resolve this issue, and other departments made the change as soon as the solution was available. However, Engineering staff did not utilize the new reports and did not request reimbursement for these costs until after this was found during the follow-up review.

- 5. Recommendation:** Obtain a copy of the federal award document and verify which costs are eligible for reimbursement. As a standard practice when the City participates in federally funded projects, even when not the designated grantee, staff should obtain a copy of the award document and use it to inform the process of accounting for project costs.

**Status:** Implemented.

- 6. Recommendation:** Document all modifications and changes agreed to by the City of Mesa and METRO in signed amendments to the Design and Construction Agreement.

**Status:** Implemented.

### **NEW RECOMMENDATIONS & RESPONSES**

Management should continue to work on implementing corrective actions to address the issues identified in the audit and follow-up review. While the Central Mesa Extension project is essentially complete, with relatively few unrecovered costs remaining, the Gilbert Road Extension project is in the early phases. To ensure that all eligible costs incurred on this current project are recovered, it is imperative that reliable processes and controls are in place and operating effectively. Our updated recommendations, along with management's responses, are listed below. As a second follow-up review, we plan to review the Gilbert Road Extension project reimbursement processes in approximately 9 months.

- 1. Recommendation:** Staff should revise the procedures for calculating and submitting reimbursable project costs, and should implement better internal controls to ensure accuracy and completeness. Unnecessary manual steps should be eliminated; Advantage and KRONOS reports should be fully utilized; and, when spreadsheets are used to calculate reimbursements, formula cells should be locked, to reduce the risk of errors.

**Management Response:** Agree.

**Implementation Plan:** Immediate implementation of updated light rail process.

**Individual or Position Responsible:** Senior Fiscal Analyst

**Estimated Completion Date:** 11/1/2016

- 2. Recommendation:** Management should implement effective review processes, including but not limited to the following: 1) Reimbursement requests should be carefully reviewed for accuracy and completeness, prior to submission, using system-generated, project-specific financial reports. This review should also include checking for spreadsheet errors, particularly for calculated line items, such as indirect cost allocations. 2) Periodically, total reimbursements received should be reconciled to inception-to-date Advantage project reports, to ensure costs are not overlooked due to timing differences or other factors.


**Management Response:** [Agree.](#)

**Implementation Plan:** [Immediate implementation of updated process addresses the issues noted in recommendation 2.](#)

**Individual or Position Responsible:** [Senior Fiscal Analyst](#)

**Estimated Completion Date:** [11/1/2016](#)


**APPENDIX / CAP IMPLEMENTATION STATUS REPORT (as of Aug/2016)**

 = Implemented       = In Progress       = Not Implemented

<b>2015 Recommendations</b>		<b>Implementation Status</b>
<b>CAP#1: Inadequate Processes and Lack of Written Procedures</b>		
<p><b>Recommendation 1-1:</b> Staff should prepare formal written procedures for calculating reimbursable project costs and submitting reimbursement requests to METRO. The procedures should include sufficient details and internal controls to minimize the risk that errors, omissions, or inconsistencies could occur and not be detected. In the future, administrative procedures should be created for each unique project or agreement, incorporating the specific requirements applicable to that arrangement.</p> <p><b>Management Response 1-1:</b> Engineering will develop processes and procedures and to improve internal controls.</p>	<p><b>Not Effectively Implemented</b>            Written procedures have been developed. However, these procedures have not significantly improved internal controls, as they include unnecessary manual entry into error-prone spreadsheets and do not include a process to periodically reconcile with Advantage financial project reports.</p>	
<b>CAP#2: Unrecovered Costs</b>		
<p><b>Recommendation 2-1:</b> Staff should reconcile previous reimbursement requests to City financial reports and to recalculated payroll and indirect cost amounts. Reimbursement should then be requested for all previously omitted costs.</p> <p><b>Management Response 2-1:</b> Engineering fiscal staff will pursue reimbursement for the remaining portion (approximately \$160,000) from Valley METRO.</p>	<p><b>Not Effectively Implemented</b>            Engineering fiscal staff did recalculate payroll and indirect overhead amounts, however, the recalculations were not accurate.</p>	
<p><b>Recommendation 2-2:</b> Controls should be implemented to ensure errors and omissions are detected and corrected prior to submitting additional reimbursement requests.</p> <p><b>Management Response 2-2:</b> Engineering staff has identified the issues associated with reimbursement cost recovery. Going forward, staff will develop a process to ensure that errors and omissions are detected and corrected prior to submitting additional reimbursement requests.</p>	<p><b>Not Effectively Implemented</b>            The review process was not effective, as it did not identify errors and omissions. More diligent review of cost reimbursement requests is necessary.</p>	
<b>CAP#3: Budget Increases Not Requested</b>		
<p><b>Recommendation 3-1:</b> The City should follow the budget change process described in the Design and Construction Agreement and formally request budget increases as soon as possible.</p>	<p><b>Implemented</b>            The department requested and received an Admin budget increase for this project, and the budget is reviewed</p>	




**APPENDIX / CAP IMPLEMENTATION STATUS REPORT (as of Aug/2016)**

 = Implemented       = In Progress      **X** = Not Implemented

<b>2015 Recommendations</b>	<b>Implementation Status</b>	
<p><b>Management Response 3-1:</b> Develop an internal process to monitor and manage the project budget on a monthly basis in order to identify budget shortfalls and/or discrepancies.</p>	<p>regularly by the project team. However, it should be noted that no additional controls have been implemented to ensure that future budget changes will be formally executed in accordance with the terms of the respective agreements.</p>	
<b>CAP#4: Uncaptured and Unrecovered Fringe Benefit Costs</b>		
<p><b>Recommendation 4-1:</b> Staff should determine whether medical and dental premium costs associated with this project can be identified and documented adequately to request reimbursement from METRO for the remainder of the project.</p> <p><b>Management Response 4-1:</b> The Engineering Department agrees that the medical and dental costs associated with the project need to be identified and documented adequately in order to request reimbursement from Valley METRO. However, this is a system issue that has City-wide implications. As a result, Engineering met with Financial Services to request help in resolving the issue. Financial Services will work on a solution.</p>	<p><b>Not Implemented</b>            Financial Services implemented a process to resolve this issue. However, Engineering did not utilize the new reports and did not request reimbursement for these costs. In our opinion, this can be attributed to the inadequate processes referred to under CAP#1. Specifically, using manual processes to gather data, instead of relying on system-generated financial reports, resulted in the failure to capture these costs. <i>[Note: After this was discovered during the follow-up review, Engineering obtained the information and submitted a request for reimbursement of a portion of these costs.]</i></p>	<b>X</b>
<p><b>Recommendation 4-2:</b> Staff responsible for tracking costs on other City projects for reimbursement purposes should be informed of this issue; and these costs, if eligible, should be identified and recovered whenever possible/practicable.</p>	<p><b>Implemented</b>            Other City departments are now including these eligible costs in their reimbursement requests.</p>	

**APPENDIX / CAP IMPLEMENTATION STATUS REPORT (as of Aug/2016)**

 = Implemented       = In Progress      **X** = Not Implemented

<b>2015 Recommendations</b>		<b>Implementation Status</b>
<b>CAP#5: Federal Award Document not on File</b>		
<p><b>Recommendation 5-1:</b> The Engineering department should obtain a copy of the federal award document and verify which costs are eligible for reimbursement. If necessary, reimbursable payroll and indirect overhead costs should be recalculated.</p> <p><b>Management Response 5-1:</b> The Project Management team will ensure that a copy of the agreements will be made available and accessible in the project file. The Project Management team will review the agreements and ensure that the City is adhering to the criteria identified in the agreements.</p>	<p><b>Implemented</b>            A copy of the award document was obtained and is in the project file.</p>	
<p><b>Recommendation 5-2:</b> In the future, when receiving federal grant funding, whether directly or indirectly, staff should obtain and review a copy of the award document, and should use it to inform the process of accounting for project costs.</p> <p><b>Management Response 5-2:</b> Going forward, the Project Management team will ensure that a copy of the agreements will be made available and accessible in the project file. The Project Management team will modify the agreement process to include Engineering fiscal staff.</p>	<p><b>Implemented</b>            The file structure on Engineering's project network drive now includes a sub-folder for Agreements in each main project folder.</p>	
<b>CAP#6: Oral Amendments to the Design and Construction Agreement</b>		
<p><b>Recommendation 6-1:</b> All changes agreed to verbally by the City of Mesa and Valley Metro Rail, Inc. should be documented as amendments to the Design and Construction Agreement and signed by both parties.</p> <p><b>Management Response 6-1:</b> The Engineering Deputy Engineer will review the Design and Construction agreement and document the items that were verbally agreed to deviate from the agreement. These items will be presented to METRO for their review and concurrence.</p> <p>Future material changes to this and other agreements with METRO will be properly documented by amendment when necessary.</p>	<p><b>Implemented</b>            A document listing changes to the Design and Construction agreement was signed by both parties.</p>	





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## **FOLLOW-UP REVIEW**

**CITY AUDITOR**

<b>Report Date:</b>	<b>November 29, 2016</b>
<b>Department:</b>	<b>Human Resources, Safety Services Division</b>
<b>Subject:</b>	<b>Workers' Compensation Claims Management</b>
<b>Lead Auditor:</b>	<b>Kate Witek, Sr. Internal Auditor</b>

### **OBJECTIVE**

The objective of this review was to determine whether the Safety Services Division effectively implemented action plans presented in their response to our September 2015 audit of Workers' Compensation Claims Management.

### **SCOPE AND METHODOLOGY**

To accomplish our objective, we interviewed staff, reviewed departmental procedures, and analyzed claims data.

### **BACKGROUND**

In September 2015, we issued a report on our audit of the Safety Services Workers' Compensation Claims Management program. The audit report included the following four (4) recommendations:

1. Develop detailed written policies and procedures for all essential processes.
2. Improve the cash handling process and ensure all checks received are handled in compliance with Management Policy 210.
3. Improve system security settings to prevent deletion of claims and provide an audit trail.
4. Increase management review of claim payments.

### **CONCLUSION**

Three of the four recommendations were successfully implemented, and one (#1 above) was partially implemented. We have recommended that the department complete the ongoing task of developing written procedures for all essential processes; and they have committed to doing so. No additional follow-up review is planned at this time.

A complete list of the original corrective action plans, along with detailed information regarding their implementation status, is presented in the attached Appendix.

**APPENDIX / CAP IMPLEMENTATION STATUS REPORT**

✓ = Implemented      ◆ = In Progress      X = Not Implemented

<b><u>Corrective Action</u></b>	<b><u>Implementation Status</u></b>	
<b>CAP#1: Policies and procedures are not in writing</b>		
<p><b>Recommendation 1-1:</b> Management objectives should be clearly communicated in written program policies; and all essential processes in the Workers' Compensation program should be documented in detailed written procedures formally adopted by management. These documents should be regularly reviewed and updated to ensure they remain current.</p> <p><b>Management Response 1-1:</b> Create and document all essential processes for the City of Mesa's Workers' Compensation program. One-hour brainstorming sessions will be held each week with the Workers' Compensation Representatives and Administrative Staff to: 1) identify processes and/or protocols specific to how the City's Workers' Compensation program is administered; and 2) create written procedures. Sessions will begin the week of September 14, 2015.</p>	<p><b>In Progress</b>            Safety Services has documented essential processes for the WC program and has created written policies and procedures for some processes. A Claims Handling Manual is in development, with detailed procedures created for 2 of 7 essential processes (Incident Reporting and Workers Comp Claim). Weekly brainstorming sessions are no longer being held; however, management has stated that they will work on completing the procedures.</p>	◆
<b>CAP#2: Cash handling processes need improvement</b>		
<p>Management should ensure that all checks received are handled in compliance with Management Policy 210, including but not limited to the following:</p> <p><b>Recommendation 2-1:</b> Checks received in the mail should be immediately restrictively endorsed.</p> <p><b>Management Response 2-1:</b> Established a chain of custody process that includes the restrictive endorsement of checks and cash items immediately upon receipt. See the Safety Service Cash Handling process document for specific details on entire process.</p>	<p><b>Implemented</b>            A secure chain of custody has been developed and implemented, including a requirement to immediately restrictively endorse any check received.</p>	✓
<p><b>Recommendation 2-2:</b> Checks should never be transmitted via interoffice mail.</p> <p><b>Management Response 2-2:</b> Established a chain of custody process that includes the delivery of the checks directly to Customer Service for deposit. Safety Services purchased a lock box that has been secured in the Worker's Compensation vault. If for some reason staff is unable to walk the check(s) to Customer Service for deposit immediately upon receipt, the checks will be secured in the lock box until the deposit can be made.</p>	<p><b>Implemented</b>            The current cash handling process requires hand-delivery of cash items to City of Mesa cashiers.</p> <p>Checks are kept in a secure lock box in the Safety Services vault until the deposit can be made.</p>	✓

**APPENDIX / CAP IMPLEMENTATION STATUS REPORT**

✓ = Implemented    ◆ = In Progress    X = Not Implemented

<b><u>Corrective Action</u></b>	<b><u>Implementation Status</u></b>	
<p><b>Recommendation 2-3:</b> Checks should be logged upon receipt, preferably by an employee in a position unrelated to the Workers Compensation payment process.</p> <p><b>Management Response 2-3:</b> Established a chain of custody process that includes checks (cash items) being logged immediately upon receipt in Safety Services.</p>	<p><b>Implemented</b>            Checks received are immediately scanned/logged by Safety Services personnel unrelated to the WC payment process.</p>	<p>✓</p>
<p><b>Recommendation 2-4:</b> All funds received in connection with a claim should be documented in the associated claim file, along with evidence showing the funds were properly recorded in the Workers' Compensation Fund in the City's financial system.</p> <p><b>Management Response 2-4:</b> Established a chain of custody process that includes scanning and attaching the revenue receipt from Customer Service to the applicable workers' compensation claim.</p>	<p><b>Implemented</b>            Copies of checks, along with deposit receipts, are included in applicable claim files.</p>	<p>✓</p>
<p><b>CAP#3: System security settings should prevent deletion of claim records</b></p>		
<p><b>Recommendation 3-1:</b> A thorough review of all RiskMaster system user roles and permissions should be performed, and the system should be reconfigured to ensure adequate controls are in place.</p> <p><b>Management Response 3-1:</b> Review the RiskMaster user roles with all essential stakeholder groups.</p>	<p><b>Implemented</b>            RiskMaster system user roles and permissions have been reviewed with all essential stakeholder groups.</p>	<p>✓</p>
<p><b>Recommendation 3-2:</b> If the System Administrator role is to remain in the operating department(s), protocols should be established to ensure effective internal controls are maintained and compliance is monitored. No end users of the RiskMaster system should have the ability to delete a claim record.</p> <p><b>Management Response 3-2:</b> The ability to delete RiskMaster claims and events was temporarily removed from system user roles and permissions for all employees outside of the IT Department on 08/05/2015. Interim procedures have been implemented to include a workflow that requires the approval of the HR Department Director to approve the deletion of any claims and/or events with supporting justification documentation. All RiskMaster claim and/or event deletion requests must go through the following steps in Safety Services:</p>	<p><b>Implemented</b>            The ability to delete claims has been removed from all groups except the system administrator group in Safety Services. There are two users in the group. Maintaining the ability to delete claims for this user group is necessary to correct user errors, and compensating controls have been implemented to help mitigate the identified risks.</p>	<p>✓</p>

**APPENDIX / CAP IMPLEMENTATION STATUS REPORT**

✓ = Implemented      ◆ = In Progress      X = Not Implemented

<b><u>Corrective Action</u></b>	<b><u>Implementation Status</u></b>	
<p>1) Any requests for deletions will be routed via email directly to the Safety Administrator for review and authorization. 2) Once approved by the Safety Administrator, the deletion request will be submitted via email to the HR Director for review and final approval. 3) Once the deletion request is authorized by the HR Director, an email confirmation will be sent to the Safety Administrator authorizing the deletion. 4) The deletion of the claim or event will be completed by the Management Assistant. 5) The Management Assistant will send a deletion confirmation email to the Safety Administrator. 6) The deletion authorization request (email chain) will then be filed in File Net.</p> <p>A more formal delete request and approval process will need to be created and finalized based on discussions with all stakeholders, to include the City Attorney's Office and the It Department.</p>		
<p><b>Recommendation 3-3:</b> The RiskMaster system's activity/audit log functionality should be activated and configured to provide an adequate audit trail and to allow for monitoring of compliance with established security protocols.</p> <p><b>Management Response 3-3:</b> Meet with appropriate IT personnel and RiskMaster vendor to have the system wide history tracking function turned on.</p>	<p><b>Implemented</b>            The history tracking/audit log function for RiskMaster has been activated.</p>	<p>✓</p>
<p><b>CAP#4: Management oversight of claim payments needs improvement</b></p>		
<p><b>Recommendation 4-1:</b> Management should increase the number of transactions tested to raise confidence level of the post-payment review process to provide a more reliable and effective internal control. Using a test sample that provides a confidence level of 90% or above is recommended.</p> <p><b>Management Response 4-1:</b> Incorporate the use of a sample size calculator to identify the number of post-payment workers' compensation transactions that will be audited each month.</p>	<p><b>Implemented</b>            The number of claims to be tested on a monthly basis is calculated using a confidence level of 90% or higher. Claims reviewed were initiated by the Safety Services Administrator.</p>	<p>✓</p>

## AUDIT REPORT

CITY AUDITOR

<b>Report Date:</b>	<b>November 30, 2016</b>
<b>Departments:</b>	<b>Financial Services and Human Resources</b>
<b>Subject:</b>	<b>Payroll and Timekeeping</b>

### OBJECTIVE

The primary objective of this audit was to determine whether adequate internal controls are in place and operating effectively to provide reasonable assurance that payroll transactions are authorized, accurate, and processed in accordance with applicable laws, regulations, and City policies; and that if errors and/or fraud were to occur, they would be identified and addressed in a timely manner. We also followed up to determine the status of findings from the 2009 audit, for the purpose of identifying any previous concerns that may be ongoing in the current environment.

### SCOPE & METHODOLOGY

To accomplish this audit we:

- Reviewed findings & recommendations from the prior Payroll audit.
- Reviewed written policies and procedures.
- Reviewed payroll process maps and system documentation.
- Observed Payroll and Time & Labor operations.
- Interviewed staff members in Payroll, Time & Labor, and other City departments.
- Examined relevant Payroll and Human Resources documents.
- Evaluated internal controls over systems and processes related to timekeeping, human resources management, payroll processing, and payroll accounting.
- Performed detailed tests and analysis of timekeeping records and payroll transactions processed between 1/1/2015 and 6/30/2015; and limited analysis of those processed between 7/1/2015 and 6/30/2016.

### BACKGROUND

The most recent internal audit of Payroll was completed in November 2009. At that time, the City Auditor made many recommendations to improve internal controls and reduce the risk that errors or fraud could occur without detection. In 2013, as part of a comprehensive Enterprise Resource Planning (ERP) project, the City replaced its core financial and human resources management systems, including the applications used for payroll and timekeeping. In conjunction with that project, several of the City's Personnel Rules, Management Policies, and operational practices related to payroll and timekeeping were revised to improve consistency and align with the new systems.

## **CURRENT ENVIRONMENT**

### Payroll Activities

In FY 2016, the City of Mesa's payroll expenditures totaled more than \$392 million, representing 31% of the annual operating budget. Every two weeks, the Payroll Section of the Accounting Services Division, with a staff of 8 FTEs, processes more than \$15 million in wages and other payroll-related expenses for more than 3,700 full and part-time employees. In total, they issue more than 100,000 paychecks/direct deposits per year.

The Payroll staff is responsible for ensuring that all City employees are paid correctly, that taxes and other deductions are properly calculated and remitted, and that all payroll-related costs are recorded accurately and timely in the City's financial system. There are numerous sub-processes and complex tasks involved in this effort.

### Timekeeping Activities

The Time & Labor Section of the Human Resources Department, with a staff of 7 FTEs, administers the Kronos timekeeping system and assists employees and supervisors with various aspects of the timekeeping process to help ensure that timekeeping is accurate and compliant with City policies. This team was created to help ensure the timekeeping data in Kronos is ready for payroll processing within hours of the end of each biweekly pay period. Prior to the implementation of the Kronos system, timekeeping assistance and administration were provided by the Payroll staff. The primary duties of the Time & Labor team include the following:

- Troubleshooting and resolution of timekeeping errors, particularly those that would prevent payroll from successfully processing.
- User assistance with timecards, time-off requests, schedules, and other issues.
- Development, administration, and continuous auditing of timekeeping rules, regulations, policies and procedures.
- Leave accruals & administration.
- Reporting and analysis of compliance data.

## **CONCLUSION**

In our opinion, for the majority of routine payroll transactions, internal controls are in place and operating effectively to provide reasonable assurance that payroll transactions are authorized, accurate, and processed in accordance with applicable laws, regulations, and City policies. Changes made in recent years to systems, processes, and policies have collectively resulted in notable improvements to consistency, accuracy, and accountability in many aspects of payroll and timekeeping. However, we also identified several opportunities for improvement, including but not limited to the following:

1. Written procedures are needed for critical processes.
2. Improvement is needed in the efficient and effective use of technology for manual processes and calculations.

3. Additional controls are needed for the off cycle check process.
4. Improved controls are needed for the administration of insurance premium payments for employees on extended unpaid leave; and the rules governing this need to be reviewed/ revised to ensure consistency.
5. Additional controls are needed to ensure part-time non-benefitted employees are enrolled in ASRS when they meet the established criteria.
6. The processes used by various departments to assign employees to minimum staffing overtime shifts needs improvement, to minimize the risks associated with excessive work hours, to promote fairness/equity in the distribution of available overtime among employees, and to responsibly manage the costs associated with overtime and future pension liabilities.
7. Citywide compliance with timekeeping policies and procedures needs improvement.

Detailed observations and recommendations are presented in the attached Corrective Action Plans (CAPs), along with responses from management.

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## CAP#1: Written Procedures

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**Observation:** Written procedures have not been established for all critical payroll processes.

**Criteria:** Written policies and procedures are a necessary internal control, to ensure critical processes are performed in a consistent manner and in accordance with management's expectations.

The Government Finance Officers Association (GFOA) recommends that governments require *"written procedures for important government processes (for example, payroll)"*.<sup>1</sup> GFOA further recommends that governments document important processes to facilitate knowledge transfer and to ensure continuity and consistency of service delivery upon employee turnover or extended absences.

**Comments:** While some written procedures have been developed since this audit began, as of this writing, there are still many processes that have not yet been documented sufficiently to mitigate the related risks. Written procedures would help to prevent noncompliance with legal/regulatory requirements, missed deadlines, poor customer service, inefficient use of staff time, inconsistent treatment of employees or customers, disruption of operations upon employee turnover/absences, etc.

Written procedures should also include protocols for document management, such as file naming conventions, requirements for electronic filing of supporting documents, organization and retention standards.

**Recommendations:**

- 1-1. Management should establish written procedures for all critical and complex payroll processes, including those associated with document management.
- 1-2. Written procedures should be actively maintained and updated; and should be organized in a single location, which should be readily accessible by all staff members who may need them.

**Management Response:** 1.1 [Agree](#)

Implementation Plan: [This recommendation is in process. The City hired a new Payroll Accountant January of 2016 and has](#)

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<sup>1</sup> [GFOA Best Practice: Framework for Internal Control: The Control Environment, January 2016](#)



updated/documented some of the payroll processes that had not previously been documented. In addition, all payroll staff have an existing PAF goal for FY 17 related to formally documenting procedures.

To ensure that all procedures are documented and updated, Payroll will first develop a plan whereby we obtain a comprehensive list of all critical and complex payroll processes and identify which procedures need to be documented, have been updated but not reviewed, and which HRM test scripts need to be updated. Payroll staff will continue to document procedures until all procedures have been updated.

Individual or Position Responsible: Kimberly Call, Payroll Administrator

Estimated Completion Date: 3/30/2017. By this date, Payroll will have identified all of the key processes that need to be updated and have an estimated completion date as to when all procedures and test scripts will be completed.

1-2. Agree

Implementation Plan: As part of updating/documenting the payroll processes, Payroll will utilize SharePoint to store and organize the Payroll documentation, and set alert/reminders to ensure payroll documentation is actively maintained and updated.

Individual or Position Responsible: Kimberly Call, Payroll Administrator

Estimated Completion Date: 6/29/2017

## CAP#2: Efficient and Effective Use of Technology

**Observation:** The full functionality of available technology has not been utilized to optimize the efficiency and accuracy of manual payroll processes.

**Criteria:** City processes should be as efficient and effective as possible, to make the most of limited resources, to reduce risks, and to provide the highest quality service to both internal and external customers.

**Comments:** Many of the sub-processes and tasks involved in the payroll cycle are performed outside of the Advantage HRM Payroll system. In general, these activities either cannot or have not been fully integrated into the HRM Payroll system, due to complexity, regulatory requirements, City policies, and other factors that require special handling. Since these activities require a substantial amount of staff time and effort, and many include data entry, calculations, or research, we refer to them as "manual". Examples include:

- Tax forms and filings
- Deferred compensation contributions and loans
- Direct deposit administration
- ASRS and PSPRS contributions & retirement processing
- Responding to subpoenas
- Child/spousal support, tax levies, and other garnishments
- Industrial Insurance Payments (IIP)
- Tuition reimbursement and repayment
- Leave of absences – benefit premium billing/repayment
- Retroactive pay

We observed Payroll staff using traditional, yet inefficient, methods to perform many of these tasks. These methods increase overall processing time and increase the risk of errors.

The standard software applications available to City staff include advanced functionalities that can enable staff to analyze, compare, reconcile, document, and share data in ways that are faster, more accurate, and more effective than traditional methods. For example, spreadsheets can be used to expedite reconciliations, to quickly compare multiple data sets, or identify exceptions or errors in large data sets. Adobe products can be used to preserve evidence, such as transmittal confirmations, screen shots, or other supporting documents used during the payroll process. Document management

applications and/or file sharing applications can be used to organize documents efficiently, manage revisions, archive old versions, share information, etc.

Additionally, there are advanced reporting tools available to gather data from the HRM system in more efficient ways than those currently in use by Payroll staff.

**Recommendation:** 2-1. Recognizing that processes have continued to evolve in the months since our observations, we recommend that an updated assessment of the manual processes and methods in use by Payroll staff be conducted with the assistance of independent consultants or City staff with advanced skills in the use of Microsoft applications and other useful technologies. If opportunities for improvement are identified, resources, training, guidance, and support should be provided as needed to ensure maximum efficiency, accuracy, and consistency in manual payroll processes.

**Management  
Response:**

2-1. [Agree](#)

Implementation Plan: [There have been many changes and improvements of specific tasks. However, an updated assessment has not been performed. Payroll will obtain assistance to conduct an updated assessment and identify training needs to fill gaps, if necessary, for payroll staff.](#)

Individual or Position Responsible: [Kimberly Call, Payroll Administrator](#)

Estimated Completion Date: [7/31/2017. By this date, Payroll will have conducted an updated assessment.](#)

### CAP#3: Off Cycle Checks

**Observations:** Additional internal controls are needed to mitigate the risks inherent in the off cycle check process.

**Criteria:** Effective internal controls reduce the risk that errors or fraud could occur without detection. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Internal controls over the payroll check writing process may include segregation of duties, physical & logical security, authorization, reconciliation, management oversight, etc.

**Comments:** Selected members of the Payroll staff have the ability to create an off cycle payroll check, request\* check stock to print it, and then gain physical custody of the completed check. There is no system requirement that these checks be approved or submitted through a workflow process, and no other review or oversight process in place.

*\* Note: Payroll staff does not have direct access to blank payroll check stock, which is secured in Accounting by a non-Payroll employee. However, it would not be impossible for Payroll staff to gain access to the secured check stock.*

**Recommendations:** 3-1. Management should implement additional internal controls over the off cycle check process, to reduce the risk that errors or fraud could occur without being detected. Ideally, only payroll staff members below the Administrator level should have the ability to create these checks, which should require system workflow approval by the Payroll Administrator or above. If a workflow process cannot be implemented, other compensating controls should be added.

**Management Response:**

3-1. **Partially Agree**

Implementation Plan: Currently workflow approval in HRM does not work successfully. When Payroll is fully staffed there are segregation of duties. Off cycle checks are done by someone other than the Payroll Administrator, and approved by the Payroll Administrator. From time to time there are off cycle

checks that are "sensitive" in nature that are done by the Payroll Administrator, these in the past were not reviewed.

Payroll will identify additional reports and procedures that will include review by the Finance Director to add compensating controls to the process.

Individual or Position Responsible: Kimberly Call, Payroll Administrator; Irma Ashworth, Finance Director

Estimated Completion Date: 3/30/2017

#### CAP#4: Benefit Premiums for Employees on Extended Leave

**Observation:** Employees on unpaid leave (not covered by FMLA, Crime Victims' Rights Act, or Military Leave) were not billed for employee benefits insurance premiums in accordance with applicable Personnel Rules.

**Criteria:** Personnel Rules Section 430.D, 440.D, and 470.D:  
*"Insurance Participation: After thirty (30) consecutive calendar days not covered by FMLA, Crime Victims' Rights Act or military leave, employees on unpaid time off for a full pay period are responsible for the payment of the City and employee portion of the insurance premium for the coverage they desire. Employees must make the payment directly to the Payroll Office."*

**Comments:** Due to the manual nature of this process, there is an increased risk of errors; however, controls to mitigate the risks have not been implemented. Therefore, when errors were made, they were not detected in the normal course of business.

A "Dock Report" was used to identify employees on unpaid leave so they could be billed for insurance premiums. Since Dock time is not always entered on employees' timecards, some employees were not billed.

Previous paycheck stubs were used to determine the insurance premium amounts owed by employees on unpaid leave. To ensure accuracy, this information should be obtained directly from the Benefits office or from the system of record for enrollment data.

Employees billed for insurance premiums were not billed for the City portion of the premiums, regardless of the length of time they were on unpaid leave. Staff stated that this was done at the direction of City Management, but the Personnel Rules have not been amended to remove the requirement.

**Recommendations:** 4-1. Management should improve and document the procedures used to identify, calculate, and bill employees on unpaid leave for benefit premiums, to ensure accuracy, consistency, and compliance with City policies. The procedures should include: roles, responsibilities, and workflow; a reliable method of identifying the employees to be invoiced; and a reliable method to determine the premium amounts due.

4-2. The City Manager should determine the circumstances, if any, under which employees will be required to pay the full cost of insurance premiums; and the City's Personnel Rules should be amended to be consistent with that determination.

**Management  
Response:**

4-1. Agree

Implementation Plan: A team has been formed to review the employees on leave to determine the best way to process billing, what amount employees are responsible for, and potential termination of benefits for non-payment. The team will submit a proposal of Policy and Procedural changes to the City Mangers office to address the concerns outlined in the audit.

Individual or Position Responsible: Talona Felix, Time and Labor Administrator; Kimberly Call, Payroll Administrator; and Jan Ashley, Benefits Administrator

Estimated Completion Date: 7/3/2017

4-2. Agree

Implementation Plan: The City Manager's Office agrees the amount employees are billed needs to be evaluated and will make a decision on the policy. Revisions to the Personnel Rules, Plan design document, and Management Policy will be made to reflect the decision made.

Individual or Position Responsible: Chris Brady, City Manager

Estimated Completion Date: 7/3/2017

## CAP#5: PTNB Employees - ASRS Eligibility

**Observation:** Part-time non-benefited employees met the criteria for ASRS membership, but were not enrolled.

**Criteria:** Per the ASRS Employer Manual, "An employee becomes a member of ASRS when that employee is engaged to work at least 20 hours a week for at least 20 weeks in a fiscal year. (A.R.S. 38-711(23)(b)). This is also referred to as the "20/20 criteria" for membership."

Once an employee meets the 20/20 criteria, that employee remains a contributing member for the remainder of that fiscal year.

**Comments:** With regard to part-time non-benefited employees, the City does not have a reliable process in place to ensure compliance with ASRS eligibility rules. Departments are required to track this and notify HR and Payroll if they determine that the 20/20 threshold has been exceeded. In our opinion, this process should not be administered at the department level.

For previous violations of this rule, ASRS required the City to remit both employee and employer contributions plus interest on behalf of the applicable employees.

**Recommendation:** 5-1. Management should implement a reliable process to ensure that part-time non-benefitted employees that meet the 20/20 criteria are enrolled in ASRS. We recommend that a citywide PTNB report be developed and monitored by HR on a biweekly basis; and any employees who meet the criteria should be immediately enrolled in ASRS.

**Management Response:** 5-1. Agree

Implementation Plan: ITD has created a report for Time and Labor, to identify the number of hours part-time, non-benefited employees work. Time and Labor runs the report quarterly, in the 1st 2nd and 4th quarters (3rd quarter is the beginning of the new fiscal year, so there is no reason to run it until the 4th quarter), and then in June as needed (typically at least twice, depending on the amount of employees who are close, and how close they are). For employees who are nearing the requirement, Time and Labor sends a notification to their



supervisor and department director to ensure they are aware of the requirement and to proceed with caution. If an employee meets the requirements, Time and Labor notifies the Department Director, HR Analyst, and Payroll Administrator that an employee is now eligible for enrollment into Arizona State Retirement system.

Payroll has a process, that once notified by HR, employees that have met the 20/20 criteria are enrolled in ASRS for the remainder of the fiscal year.

Individual or Position Responsible: Talona Felix, Time and Labor Administrator; Kimberly Call, Payroll Administrator

Estimated Completion Date: Complete

## CAP#6: Assignment of Critical Staffing Overtime

**Observation:** Some departments have allowed a small number of employees to work a disproportionate percentage of critical staffing<sup>2</sup> overtime in comparison to their peers, rather than distributing the workload among a larger number of qualified employees. In most departments, there are no formal procedures or established protocols for selecting employees to fill these shifts.

This is a citywide concern; however, the disparity was found to be particularly significant in the Police Department, as noted in the Comments section, below.

**Criteria:** The City has the authority, as well as a duty to taxpayers and officers, to manage overtime staffing in a way that meets operational needs in the safest, fairest, and most cost-effective manner possible. While it is important to note that the City and the Police Department both have specific policies in place to mitigate the risk of fatigue due to extended work hours, these policies do not address the processes used to assign overtime hours to individual employees. A more equitable method of assigning these hours may further reduce the overall risks.

### Safety:

A 2006 study published by the American Journal of Industrial Medicine<sup>3</sup> concluded that, "*Long work hours and shift work threaten police officer health, safety, and performance.*" The study also reported that "*Fatigue-related impairments to officer performance and decision making can generate unexpected social and economic costs.*" Likewise, a 2000 study by the Police Executive Research Forum for the U.S. Department of Justice<sup>4</sup>, reported that, "*Fatigue also increases the probability that police officers will be involved in accidents that put themselves and their communities at risk due to decreased alertness and impaired performance.*" While these studies were specifically focused on

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<sup>2</sup> Critical staffing overtime (also known as "minimum staffing") is used to maintain a predetermined minimum number of employees on duty at any given time, to ensure the department is able to provide essential services. The majority of critical staffing overtime is used to fill in for regular employees who are absent due to illness, vacation, or other approved time off.

<sup>3</sup> Vila, B. (2006), Impact of long work hours on police officers and the communities they serve. Am. J. Ind. Med., 49: 972–980. doi:10.1002/ajim.20333.

<sup>4</sup> Vila, B.; Kenney, D.; Morrison, G.; Reuland, M. (2000), *Evaluating the Effects of Fatigue on Police Patrol Officers*. Washington, D.C.: Police Executive Research Forum.

police employees, similar risks would apply to the health, safety, and performance of other employees, such as Solid Waste Equipment Operators, for which fatigue is known to play a significant role in preventable accidents.

Fairness:

To maintain positive morale, minimum staffing and other voluntary overtime opportunities should be made available fairly and equitably, based on objective criteria, to all eligible, qualified, and interested employees.

Fiscal Responsibility:

The statutes governing the Arizona State Retirement System (ASRS)<sup>5</sup> and the Public Safety Personnel Retirement System (PSPRS)<sup>6</sup> require that overtime be included in total compensation when calculating pension contributions and benefits. As a result, an employee who works a significant amount of overtime during his/her final few years of service will, in effect, be paid overtime continually for the rest of his/her life, in the form of a higher monthly pension benefit. This well-known practice is commonly referred to as "pension spiking"; but what is less well-known is that it is not just the pension benefits that "spike", it is the City's current, *and future*, pension costs, which already place an untenable strain on available resources. This increase in long-term pension costs could be reduced, if overtime were to be spread across a greater number of employees, including those who are not within their last few years of service.

**Comments:**

The following table shows the disparity we found in the distribution of minimum staffing overtime in the Police Department. More than 600 PD employees worked a grand total of 25,443 critical staffing overtime hours during FY 2016 (in addition to several other types of overtime worked). However, only 11 employees worked more than 200 hours, and 1 employee worked 915 hours (almost twice as much as the second highest). In fact, when combined with all other hours worked, this employee worked an average of more than 64 hours/week throughout FY 2016. That's an average of more than 24 hours of overtime per week, every week. Of course many weeks were higher or lower, but overall consistently high numbers were limited to very few employees.

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<sup>5</sup> A.R.S. § 38-711(5) and (7)

<sup>6</sup> A.R.S. § 38-842(12)

<b>Police Department Critical Staffing Overtime – FY 2016</b>	
<b># of Employees</b>	<b>Total # of Critical Staffing Hours</b>
557	1-100
52	101-200
5	201-300
4	301-400
1	473
1	915

**Recommendation:** 6-1. City management should require any department that uses critical/minimum staffing to implement a formal policy under which the assignment of those shifts is actively managed in a fair and equitable manner that ensures operational needs are met while also minimizing the risks associated with excessive work hours. Management should actively monitor compliance and enforce these policies.

**Management  
Response:**

6-1. Agree

Implementation Plan: The City Manager's Office agrees and will make changes to support minimizing the risk associated with excessive work hours. The new timekeeping policy will include verbiage that requires departments to establish a formal policy that fosters a fair and equitable way for overtime shifts to be assigned.

Going forward, Time and Labor will provide a quarterly report to City management that identifies the overtime hours worked by department by employee, and an analysis of that data. If a trend is seen, City management will notify the Department Director to investigate and act accordingly.

Individual or Position Responsible: Chris Brady, City Manager;  
Talona Felix, Time and Labor Administrator

Estimated Completion Date: 2/28/2017

## CAP#7: Compliance with Timekeeping Policies and Procedures

**Observation:** Employees and supervisors citywide do not consistently comply with all timekeeping policies and procedures established by City management. As a result, significant resources are dedicated to resolving timekeeping issues at the close of every pay period, to enable the payroll process to be successfully completed.

**Criteria:** Accurate and timely submission of time and labor data in the Kronos system is critical to the City's ability to pay its employees and accurately account for payroll expenditures.

**Comments:** We conservatively estimate that the City spends more than \$300,000 per year on efforts to enforce compliance with established timekeeping policies and procedures. This represents a substantial portion of the work done by the Time and Labor team, including many staff hours spent continuously auditing and "policing" individual timecards and timekeeping activities citywide. These activities are in addition to the operationally necessary processes that constitute the original, core purpose of having a separate Time and Labor team. Much, if not all, of this work could be avoided if employees and supervisors would ensure timecards are accurate, complete, and approved in a timely manner. This would allow the biweekly payroll process to begin on time, and would help to minimize the need for time-consuming corrections.

A variety of strategies have been implemented to increase compliance, but progress has been slow and the cost of enforcement continues to rise. The resources tied up in these compliance efforts would be better spent on more proactive activities, such as data analysis, system administration, and process improvement.

The City expects supervisors to ensure timecards are accurate prior to approving them; yet the Kronos system is configured to allow supervisors to approve a block of timecards without opening or viewing them, even if the timecards have missed punches or other critical errors. Also, the system allows supervisors to make changes to punches (time-in, time-out), without notifying the employee or requiring that the employee acknowledge the changes.

A timekeeping Management Policy has been "under construction" for over 3 years, but as of this writing, has not yet been issued. Such a

policy would be useful in setting enforceable requirements and specific consequences for non-compliance.

- Recommendations:**
- 7-1. Management should finalize and issue Management Policy 400, Timekeeping and Leave Administration.
  - 7-2. To minimize the risk of inaccurate paychecks, and to reduce the need for historical edits of timekeeping records, management should:
    - a. Require supervisors to open timecards prior to approving them. (At a minimum, this should apply to any timecards that contain exceptions.)
    - b. Limit (to the extent possible and practical) the ability of supervisors to edit existing employee-generated punch times.
    - c. Notify an employee if his/her timecard is changed after the employee approved it.

**Management Response:**

- 7-1. **Agree**

Implementation Plan: The management policy is drafted and is currently going through management review. After the comment period, the policy will be posted and available on InsideMesa.

Individual or Position Responsible: Talona Felix, Time and Labor Administrator

Estimated Completion Date: 3/6/2017
- 7-2. **Agree**

Implementation Plan: Human Resources office agrees supervisor should not alter employees time without justification, further the timekeeping policy will require supervisors who make changes to document their reason for making the edit by adding a comment.

  - a. The new timekeeping policy will include verbiage that requires supervisors to open employee timesheets prior to approval, when appropriate. While we agree in most instances supervisor should be required to open timecard and review them prior to approving them; there are certain instances when the group approval capability is beneficial.

Certain measures have been and will be put in place that encourages supervisors to review the timecard prior to approval, such as the Health Check document, the new PAF requirements, and the Timekeeping Policy.

The Kronos timekeeping system will be upgraded within the next year and the project team will continue to investigate future enhancements to minimize timecard errors.

- b. The new timekeeping policy will include verbiage that requires supervisors to add a comment to justify why they've edited an existing employee punch. This is an 'all or nothing' setting in KRONOS, so we cannot use the system to limit the ability. However, we recently worked with ITD to develop a report that shows punch audit data, so we can better track it and address issues when they arise. Additionally, punches are now a metric of the PAFs, and we have identified what punches are reasonable for a supervisor to add, and what are not. We are in the process of creating additional comments that can be used to provide justification for the reasonable edit. All others will be included on the Health Check data, so they can be addressed by departments on a regular basis.
- c. We are working on accomplishing this. There is a setting in the system that is currently turned on for employees, yet the emails are not being sent. We are troubleshooting with Kronos to determine what other system setting is keeping this from happening, and once we resolve that, we can implement this.

Individual or Position Responsible: Talona Felix, Time and Labor Administrator

Estimated Completion Date: 4/3/2017

## AUDIT REPORT

## CITY AUDITOR

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<b>Report Date:</b>	<b>December 1, 2016</b>
<b>Department:</b>	<b>Water Resources</b>
<b>Subject:</b>	<b>Asset Management Program</b>
<b>Lead Auditor:</b>	<b>Kate Witek</b>

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### **OBJECTIVE**

This audit was conducted to determine whether internal controls and processes related to Water Resources asset management are adequate to provide reasonable assurance that:

- Asset lifecycle, condition, and maintenance data are actively maintained and used to inform capital improvement planning.
- Asset information is complete and accurate.
- Critical risks related to asset management are minimized.

### **SCOPE & METHODOLOGY**

To accomplish our objectives, we:

- Reviewed governmental and industry regulations, guidelines, and best practices<sup>1</sup> for the management of water and wastewater utility assets and infrastructure.
- Reviewed Council Reports & approved minutes; budget presentations; and information published on the Water Resources website, including the department's Strategic Plan.
- Interviewed staff in the Water Resources and Financial Services departments.
- Toured water and wastewater facilities.
- Reviewed Asset Management Project expenditures, funding sources, forecasting models, risk assessments, and other related records.
- Analyzed data from multiple systems used to track capital assets, capital improvements, maintenance, and related activities, including the Advanced Maintenance Management System (AMMS); the Cityworks database (CMMS); and the Advantage Financials Fixed Assets (FA) system.
- Tested the asset tracking/inventory process.

### **BACKGROUND**

The City of Mesa Water Resources department maintains approximately \$1 billion in capital assets; including a water treatment plant, 3 wastewater reclamation plants, 33 groundwater wells,

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<sup>1</sup> The US Environmental Protection Agency (USEPA) Office of Water (OW) has published extensive guidance on asset management for water and wastewater utilities. This guidance includes a well-developed framework of best practices and standards, which provided the majority of the criteria we used to evaluate the Water Resources department's asset management program and practices.



2,364 miles of water mains, and 1,781 miles of wastewater mains. Water Resources also participates with the City of Phoenix in the joint-use of the Val Vista water treatment facility and a wastewater facility in Tolleson, AZ. An additional water treatment plant in the southeast area of the City is under construction and is expected to be completed in 2018.

The City recognizes the importance of maintaining and investing in water and wastewater infrastructure and assets, both above and below ground, to improve reliability and prevent service disruptions. To that end, the Water Resources Department's Capital Improvement Plan currently includes \$96M for 47 separate Lifecycle/Replacement/Reliability bond projects. Lifecycle projects are identified and prioritized by management using data from multiple sources, including but not limited to two separate asset management systems, GIS tools, and institutional knowledge.

The 2013/2014 Strategic Plan published by the Water Resources Department includes a stated goal to:

*"Develop and implement an asset management program through which all assets are identified, characterized, and mapped in GIS, and through which maintenance and replacement is documented, analyzed and predicted," using "condition assessment and predictive failure analysis to replace/rehabilitate infrastructure at the most cost-effective time."*

This goal envisions a fully developed and operational asset management program. To make that a vision a reality will require dedicating considerable staff time, expertise, and other resources to the program. The department's Asset Management Group is charged with this responsibility, but this group is comprised of employees with many other responsibilities; therefore, the department has made limited progress toward this goal.

## **CONCLUSION**

In our opinion, internal controls and processes related to Water Resources asset management are adequate to provide reasonable assurance that asset information is accurate and actively maintained, and that critical risks related to asset management are minimized. We found that the asset management program is working well in many areas, particularly in the monitoring of water and wastewater pipe systems. However, we also found that there are opportunities for improvement in some areas. Our observations and recommendations are summarized below. For additional details, and responses from management, please see the attached Corrective Action Plans (CAPs).

## **OBSERVATIONS & RECOMOMENDATIONS**

1. Although the Water Resources department does have an "Asset Management Group" and already engages in many of the asset management best practices recommended by the industry, they have not adopted a formal written policy establishing an asset life-cycle management program as an ongoing operational activity. We are recommending that they do so, to provide clear direction to staff and to ensure that a comprehensive asset management program remains a strategic priority for the department.

2. Water Resources asset management systems contain condition and useful life information for many critical assets; however, there are other assets for which this data has not yet been recorded. This additional data could be useful when planning and budgeting for capital maintenance and replacement needs. Also, due in part to system limitations, the current systems do not contain context-specific maintenance information; for example, run time and environmental conditions. We are recommending that staff periodically assess the physical condition and remaining useful life of critical capital assets, where the benefits of undertaking the assessment outweigh the costs. This information should be recorded and used in a structured process to identify and prioritize repair/replace decisions.
3. Water Resources Engineers perform risk assessments to monitor and identify assets for repair/replacement, but the process is not comprehensive. Additionally, the rating scales used to evaluate risks could be more consistent among engineers. We are recommending that the department develop a consistent assessment procedure to be used, when appropriate, for evaluating risks associated with certain critical assets. The resulting data should be used to inform both short- and long-term CIP planning.
4. The Asset Management Project Advisory Committee does not include staff from the department's plants and facilities. We are recommending that management include representatives from these locations on the Committee.

## CAP#1 : Asset Management Program Policy

**Observation:** The Water Resources department has established a strategic goal of implementing a comprehensive asset management program, and has established an Asset Management Group; but they have not formally adopted a policy which establishes a comprehensive asset life-cycle management program.

**Criteria:** According to the EPA's Best Practices Guide, "*Asset management is maintaining a desired level of service for what you want your assets to provide at the lowest life cycle cost. ... Asset management is implemented through an asset management program and typically includes a written asset management plan.*"

The Government Finance Officers Association (GFOA) Best Practice Advisory *Adopting Financial Policies* recommends that governments formally adopt "*Capital policies that cover the lifecycle of capital assets, including capital improvement planning, capital budgeting, project management and asset maintenance.*" The GFOA also maintains that capital policies support good bond ratings and can help reduce the cost of borrowing.

**Comment:** Water Resources already engages in many of the asset management best practices recommended by the industry, such as condition testing and predictive risk modeling for underground assets (pipes). However, without a formal policy (a management directive), the department has not yet fully realized its goal of having a fully developed asset management program as stated in its strategic plan.

**Recommendation:** Water Resources management should develop and implement a policy, and related procedures, to establish a comprehensive asset management program as an operational activity.

**Management Response:** Agree.

Implementation Plan: The Department agrees with the need to have a comprehensive policy. After developing a Vision Statement laying out the strategic objectives and a high level Implementation Plan, the Department worked with users to obtain their feedback prior to releasing a policy. The Vision Statement was completed in September 2015, followed by the Implementation Plan in December 2015. After these

activities were completed, the Department developed a short concise policy which aligns with the Strategic Plan.

Individual or Position Responsible: Dan Cleavenger, Water Resources Department Director

Estimated Completion Date: Done

## CAP#2: Incomplete Data in Asset Management Systems

**Observation:** Some asset records in Water Resources' asset databases do not contain all available information; and there are no policies/procedures requiring staff to record/maintain context-specific maintenance information, such as runtime and environmental conditions, which may be useful in assessing risks. There is also no policy requiring that assets be periodically inventoried. If this data is not captured and continually maintained, it cannot be used to identify and prioritize repair/replace decisions.

**Criteria:** The GFOA Best Practice Advisory, *Capital Asset Maintenance and Replacement*, recommends that governments establish an inventory system, including regularly measuring the physical condition of all critical assets, and assessing remaining asset useful life to appropriately plan and budget for capital maintenance and replacement needs.

The GFOA Best Practice Advisory, *Capital Planning Policies*, recommends that capital planning policies include identification of how decisions are made in the capital planning process, including a structured process for prioritizing need and allocating limited resources.

**Comment:** Water Resources asset management systems contain condition and useful life information for many critical assets; however, there are other critical assets for which this data has not yet been recorded, but for which this additional data could be useful when planning and budgeting for capital maintenance and replacement needs. Also, due in part to system limitations, the current systems do not contain context-specific maintenance information; for example, run time and environmental conditions.

**Recommendation:** Water Resources asset management procedures should require a periodic assessment of the physical condition and remaining useful life of critical capital assets, where the benefits of undertaking the assessment outweigh the costs. This data should be recorded in asset management systems and used to prioritize repair/replace decisions in a structured capital planning and maintenance process.

**Management Response:** [Agree.](#)

**Implementation Plan:** The Department is in the process of developing a program to support the condition testing program for critical assets. The following general steps will be followed:

- Define condition assessment objectives and drivers, condition rating system and desired outcomes
- Define performance measures and failure modes
- Identify potential test procedures, monitoring modes, performance evaluations, and inspection procedures
- Develop a draft condition assessment plan
- Define pilot program for testing of condition assessment program for two selected asset types (future goal)

The Water Resources Department will complete the condition assessment procedures by the completion date below.

**Individual or Position Responsible:** Carlos Padilla, Water Resources Assistant Director

**Estimated Completion Date:** 11/30/2017

### **CAP#3: No Comprehensive Predictive Risk Assessment Process**

**Observation:** While WR engineers perform risk assessments to monitor and identify some assets for repair/replacement (primarily for below-ground assets), the department has not developed comprehensive risk assessment procedures for all critical assets.

**Criteria:** Industry best practice, cited in a 2007 joint study by the Water Environmental Research Foundation, American Water Works Association, and the US Environmental Protection Agency, *Condition Assessment Strategies and Protocols for Water and Wastewater Utility Assets*, recommends monitoring critical assets and performing recurring risk assessments, using uniform condition criteria and risk ratings, to help identify, document, and prioritize assets for repair or replacement.

**Comment:** Currently, once an asset has been identified as a possible CIP project by maintenance staff, an engineer is assigned to complete a risk assessment. However, performing a risk assessment for an asset that has already been identified as a possible capital improvement project may not identify all needs or the most critical overall need.

Also, we found inconsistencies in the risk rating methods used by different engineers. For example, ratings assess consequence of failure/likelihood of failure (COF/LOF) based on a 1-5 rating scale. Some engineers add these two ratings together (1-10), and some multiplied the two ratings (1-25). This makes the data less useful for prioritizing CIP projects.

**Recommendation:** Water Resources management and engineering staff should develop a risk based assessment procedure for critical assets. Depending on the type of asset, this procedure could include targeted monitoring, condition testing, inspections, and maintenance history to evaluate the probability of failure. This information should be used to help prioritize CIP projects.

**Management Response:** Agree.

**Implementation Plan:** The objective is to develop risk assessment and management procedures. This will include the following steps:

- Define a policy statement that states clear objectives and purposes to guide the management of risk
- Identify the risks that will be managed focusing on physical failure risks and operational risks
- Develop rating system with associated weights tied to condition rating, maintenance/failure history, consequences of failure, probability of failure, etc.

Define how the output from the risk management procedures will be used to help prioritize CIP projects.

Individual or Position Responsible: Carlos Padilla, Water Resources Assistant Director

Estimated Completion Date: 11/30/2017



## CAP #4: Project Advisory Committee

**Observation:** Plant/facility staff do not participate on the Project Advisory Committee assisting in the development of the asset management program.

**Criteria:** The United State Environmental Protection Agency, Office of Groundwater and Drinking Water, advises that successful asset management requires a dedicated team, including "utility operators with knowledge of current infrastructure assets".

**Comment:** A shared vision and action plan are the foundation for a successful life-cycle asset maintenance/management program. Developing a vision should bring all stakeholders together to reach consensus on program objectives and to help prepare a plan for successful program implementation.

**Recommendation :** Management should assign plant staff to the Asset Management Project Advisory Committee work group.

**Management** [Agree.](#)

**Response:** Implementation Plan: [The Department is now embarking on reviewing the asset management systems at the plants so it makes sense now to include plant staff in the internal committee referenced above. Up to this point the Department has been reviewing the water distribution and wastewater collection assets \(non-plant assets\).](#)

Individual or Position Responsible: [Dan Cleavenger, Water Resources Department Director](#)

Estimated Completion Date: [Done](#)

## AUDIT REPORT

CITY AUDITOR

<b>Report Date:</b>	<b>November 28, 2016</b>
<b>Department:</b>	<b>Communications</b>
<b>Subject:</b>	<b>Procurement and Inventory Management</b>
<b>Lead Auditor:</b>	<b>Kate Witek</b>

### OBJECTIVE

This audit was conducted to evaluate the effectiveness of internal controls related to procurement and inventory management.

### SCOPE & METHODOLOGY

To accomplish our objectives, we:

- Interviewed staff and management
- Evaluated internal controls related to procurement and inventory
- Tested the procurement and inventory processes
- Tested the reliability of data in the asset maintenance management system (Mainsaver)

### BACKGROUND

The City of Mesa's Communications department ensures that handheld and vehicle-mounted communications equipment, as well as network infrastructure, are operational and available for use when needed by City departments. The Communications department serves as the authority on the City's microwave and licensed-spectrum radio system and is responsible for:

- Providing recommendations and estimated costs for City departments purchasing licensed-spectrum radio equipment, and coordinating these purchases to ensure compatibility with communication systems.
- Maintaining communications hardware and equipment on behalf of various end users.
- Planning, acquiring and maintaining all City-owned microwave systems.
- Engineering, licensing, installing and servicing City-owned/licensed radio frequencies.
- Day to day operations and administration of the regional wireless public safety communication system, on behalf of the TOPAZ Regional Wireless Cooperative (TRWC).

### CONCLUSION

In our opinion, internal controls related to Communication's procurement activities are operating effectively and provide reasonable assurance of compliance with City policies. However, we determined internal controls related to inventory and asset management could be improved, particularly with regard to asset disposal, policies and procedures, chain of custody documentation, and asset inventory data.

A summary of our observations and recommendations is included below. For more detailed explanations, along with responses from management, please see the attached Corrective Action Plans (CAPs).

### **OBSERVATIONS & RECOMMENDATIONS**

1. Obsolete parts and equipment have been accumulating in the Communications warehouse, and should be appropriately disposed of. The department has procedures in place for disposing of assets, but they are outdated. We are recommending that the department appropriately dispose of all obsolete items in the warehouse; and that they periodically review and update procedure documents to ensure they remain consistent with City policies, current practices, and management directives.
2. Communications warehouse staff does not consistently document the issuance of consumable items (batteries, antennas, etc.) as required by department policy; and does not always document the issuance of purchased equipment (radios, etc.) to end users. In addition, when equipment is returned to inventory, re-issued to end users, or disposed of, the Mainsaver system is not always updated. We are recommending that the department revise its procedures for issuing consumable items, document the movement of items of value in and out of the warehouse, and implement an effective process for continuously maintaining accurate status and location information for assets in the Mainsaver system.
3. Communications has stored asset disposal forms since 2007, which is not compliant with the City's records retention policy. We are recommending that the department dispose of these documents as required by City and state records retention policies; and implement a process to ensure compliance is maintained in the future.

## CAP#1 – Obsolete inventory and outdated procedures

**Observation:** Obsolete inventory has been accumulating in the Communications warehouse; and written policies and procedures for asset disposal (and other processes) are out of date.

**Criteria:**

- The City has a duty to use public resources as efficiently as possible.
- In order to serve as an effective internal control, policies and procedures must be updated periodically to reflect changes in processes, regulations, and systems.

**Comment:** Warehouse space is being used to store items the City may not be able to use, which is an inefficient use of resources. Communications departmental written policies and procedures were issued in 2005 and have not been updated to reflect changes in procurement and inventory processes. The process for disposing of obsolete inventory, as described in these documents, is not consistent with current City policies, systems, and practices; therefore, it is not followed.

**Recommendation:**

- 1-1. The Communications department should identify and appropriately dispose of obsolete items being stored in the warehouse.
- 1-2. Management should periodically review and update written policies and procedures to ensure they remain consistent with City policies, management directives, and operational processes; and to provide effective guidance to staff.

**Management Response:**

- 1-1. Agree.  
Implementation Plan: Will review and identify obsolete equipment and dispose of it according to applicable City Management policies.  
Individual or Position Responsible: Management Assistant I, Wireless Communications Administrator, and Lead Parts and Supply Specialist.

Estimated Completion Date: 12/31/2017

1-2. Agree.

Implementation Plan: Will review and update written policies and procedures and establish new procedures as necessary.

Individual or Position Responsible: Management Assistant I

Estimated Completion Date: 8/31/2017

## CAP#2 – Chain of custody documentation and inventory system data

**Observation:** Communications warehouse staff do not consistently follow established procedures when issuing consumable items (batteries, antennas, etc.); and the department does not have an effective process for documenting the movement of equipment (radios, etc.) in and out of the warehouse.

**Criteria:** Communications Daily Warehouse Duties and Procedures #1 - Receiving Inventory and Purchase Orders: "*A Materials Request is necessary when items are picked up by a customer in order to be issued out (get a signature)*".

**Comments:** Communications has a process for issuing consumable items to end users; however, it is not always followed and it may only be needed for certain higher value items.

In addition, the department programs, repairs and issues regional wireless network equipment for end-users; however, there are currently no formal written procedures requiring a documented transfer. Therefore, there is no record of who the equipment was released to, or when the transfer of custody occurred. Lastly, when equipment is returned to inventory, re-issued to end users, or disposed of, the Mainsaver system is not always updated. We randomly sampled 20 radios listed on a July 2014 disposal form and found them in the system with the following status:

STATUS	COUNT
ISF/In Service Full	8
RTI/Warehouse (Returned to Inventory)	8
DEA/Deactivated	2
MIA/Lost or Stolen	1
OSH/Out of Service Hold	1
<b>Total</b>	<b>20</b>

We also randomly sampled 24 items listed in the system as Returned to Inventory, and 14 of them could not be located. Of those 14 items, 5 radios were later found listed on the July 2014 disposal form.

The department does periodically update the records; i.e. in July 2016 (during audit testing), we noted that the status of almost

1,000 assets was changed to DEA/Deactivated in the Mainsaver system. However, real-time updating of records would eliminate the need for this type of "clean-up" effort.

- Recommendation:**
- 2-1. The Communications department should revise its procedures for issuing consumable items to be consistent with actual practices and operational needs.
  - 2-2. Communications staff should consistently document the transfer of custody of equipment moving in and out of the warehouse.
  - 2-3. Management should implement a more effective process for continuously maintaining accurate status and location information for assets in the Mainsaver system.

**Management  
Response:**

- 2-1. Agree.  
Implementation Plan: Will review and update written policies and procedures and establish new procedures as necessary.  
Individual or Position Responsible: Management Assistant I  
Estimated Completion Date: 8/31/2017
- 2-2. Agree.  
Implementation Plan: Reinforce with Department personnel to follow existing policies and procedure to ensure there is a documented chain of custody. We will also review and update existing procedures and establish new procedures as necessary.  
Individual or Position Responsible: Management Assistant I, Communications Systems Coordinator, Lead Parts and Supply Specialist.  
Estimated Completion Date: 3/31/2017
- 2-3. Agree.  
Implementation Plan: Reinforce with Department personnel to follow existing policies and procedure. We will also review and update existing procedures and establish new procedures as necessary.  
Individual or Position Responsible: Management Assistant I, Communications Systems Coordinator, Lead Parts and Supply Specialist.  
Estimated Completion Date: 6/30/2017

### CAP#3: Records retention

- Observation:** Communications has retained disposal forms since 2007.
- Criteria:** The Arizona Records Retention Schedule for All Public Bodies Warehouse/Supply Records requires that disposal records be retained for "3 years after fiscal year property disposed of".  
Management Policy 105 requires compliance with the State retention schedule.
- Comment:** Communications disposal records should be managed in accordance with City of Mesa Management Policy 105.
- Recommendation:** 3-1. Communications should dispose of documents as required by City and state records retention policies; and implement a process to ensure compliance is maintained in the future.
- Management Response:** 3-1. Agree.  
Implementation Plan: Will review and identify records that need to be disposed of according to applicable City and state records retention policies. We will establish a procedure for regular review of records for disposal.  
Individual or Position Responsible: Management Assistant I, Lead Parts and Supply Specialist.  
Estimated Completion Date: 2/28/2017





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## AUDIT REPORT

CITY AUDITOR

<b>Reporting Period:</b>	<b>Fiscal Year 2016</b>
<b>Department:</b>	<b>Citywide</b>
<b>Subject:</b>	<b>Continuous Auditing of Petty Cash &amp; Change Funds</b>
<b>Lead Auditor:</b>	<b>Kate Witek</b>

### OBJECTIVES

This audit was conducted to determine whether adequate internal controls are in place and operating effectively to safeguard cash funds throughout the City.

### SCOPE & METHODOLOGY

To accomplish our objective, we:

- Conducted unannounced cash counts of 23 change funds
- Conducted unannounced cash counts of 6 petty cash funds
- Evaluated controls for security procedures and policy compliance
- Interviewed staff members responsible for cash handling
- Examined custodial agreements on file in Accounting Services

### **Ongoing Oversight**

Previous audits of Petty Cash Funds, Change Funds, and Cash Handling have shown that compliance with cash-related City policies is difficult for many departments to maintain, due to high turnover and other challenges. As a result, starting in fiscal year 2016, the City Auditor's Office implemented a continuous auditing process, with the hope that the interaction between auditors and cash custodians, as well as the timely detection and mitigation of discrepancies, would result in improved compliance and a stronger control environment.

### **Change Funds**

There are 23 change funds used by various City enterprises to make change during cash transactions with customers. Change funds should never be expended or depleted for any reason, and each fund should be equal to its established value at all times. While most of the funds are maintained with small balances, the total amount of cash that passes through them each year is over \$1 million. Each fund has one or more designated custodian(s) responsible for ensuring the fund is managed in accordance with City and departmental policies.

### **Petty Cash Funds**

There are 15 petty cash funds, which are used for small expenditures (less than \$100) when no other procurement method is available or practical. The total amount of cash and vouchers in each petty cash fund should be equal to the fund's established value at all times. These funds are replenished as funds are depleted.

## **CONCLUSION**

During the 2016 fiscal year, no material discrepancies were identified in cash fund balances, and compliance with the majority of policy requirements has improved significantly.

However, we found 4 instances in which departments did not notify Accounting of changes in fund custodians due to retirements and other staffing changes. This is an important step because the established process of formally assigning a new custodian includes specific steps to ensure the new custodian is aware of and understands the applicable policies and procedures. However, City policies do not specify a time frame in which this notification must take place. Therefore, we have recommended that an appropriate time frame for notification be added to the Petty Cash and Change Fund policies.