



AUDIT, FINANCE & ENTERPRISE COMMITTEE

February 21, 2018

The Audit, Finance & Enterprise Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on February 21, 2018, at 8:00 a.m.

COMMITTEE PRESENT

Mark Freeman, Chairman
Christopher Glover
David Luna

COMMITTEE ABSENT

None

STAFF PRESENT

Michael Kennington
DeeAnn Mickelsen
MaryGrace McNear

1. Items from citizens present.

There were no items from citizens present.

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

1. Cash Funds – FY 2017 Annual Report

City Auditor Jennifer Ruttman displayed a PowerPoint presentation (**See Attachment 1**) related to audits on Cash Funds – FY 2017 Annual Report, Contract Monitoring – Mesa Arts Center, Contract Monitoring – Community Services Department, Contract Monitoring – Facilities Maintenance, Follow-up Review – Water Resources Asset Management, and Follow-up Review – Communications Inventory.

Ms. Ruttman advised a cash audit is completed annually and she provided the purpose for the audits. (See Page 4 of Attachment 1)

Ms. Ruttman detailed the three opportunities for improvement that were discovered as a result of the audit (See Page 5 of Attachment 1) and provided an update on two policy revisions that were partially and fully implemented. (See Page 6 of Attachment 1)

2. Contract Monitoring – Mesa Arts Center

Ms. Ruttman advised there were no notable findings while reviewing the contracts with the Mesa Arts Center, however, she noted there were opportunities for improvement and provided the three areas. (See Page 8 of Attachment 1)

In response to a question posed by Committeemember Glover, Ms. Ruttman advised City employees have access to a database that provides contract documents. She stated a majority of the time her staff works to educate department employees on the importance of reviewing contracts and ensuring the contract is being implemented correctly.

In response to a question posed by Committeemember Luna, Ms. Ruttman advised the Business Services Department offers a centralized contract monitoring training course to employees overseeing contracts. She explained there are policies in place that state contracts need to be in writing, verbal modifications are not allowed, and employees are instructed to follow this policy.

Assistant City Attorney MaryGrace McNear clarified that the Legal Department does not have a lot of direct contact with employees and many of the questions come from directors. She advised during the training course provided by Business Services, employees are encouraged to reach out to the Legal Department with any questions regarding a contract.

In response to a question posed by Committeemember Luna, Ms. Ruttman stated employees work with the Purchasing Department to establish the contract, therefore an employee's first source of contact with a question would be the Purchasing Department. She added the Purchasing Department will then decide if the Legal Department needs to be involved.

3. Contract Monitoring – Community Services Department

Ms. Ruttman detailed two contracts with West Mesa CDC that were reviewed; one was federally funded and one was locally funded. (See Page 10 of Attachment 1)

Ms. Ruttman explained that during the review process of the Economic Development Contract it was found that West Mesa CDC's requests for reimbursement were paid without first providing critical evidence that they complied. She advised that because of this some inadequacies in documentation existed without staff being aware of it occurring. (See Page 11 of Attachment 1)

Ms. Ruttman provided the recommendations made to staff to ensure this problem is not encountered in the future. She pointed out it is important for the City to have a good process in place and work with the contracted agency if deficiencies are identified and then guidance can be provided to become compliant. (See Page 12 of Attachment 1)

In response to a question posed by Chairman Freeman, Housing and Community Development Director Liz Morales advised nine internal trainings were conducted with staff. She advised many of the staff members are well trained, but the training was a great opportunity to refresh staff on the various Community Development Block Grant (CDBG) program regulations.

In response to questions posed by Committeemember Glover, Community Revitalization Coordinator Dennis Newburn advised it is the responsibility of City staff and the contractor to read the contract and fully understand the details contained within it. He advised in the future the plan is to possibly hold more trainings before the application process begins to ensure applicants understand the CDBG program and the related laws. He added as a condition of receiving funds from the U.S. Department of Housing and Urban Development, staff conducts onsite monitoring visits. He clarified by stating a desk audit is first done to identify what has been requested to be completed and then staff will do an onsite visit with the organization where

evidence will be provided to support their claim of what had been completed during a particular program year. He advised this is a way for staff to identify if there is an issue with procedural compliance and reimbursement does not occur until after this process is complete.

Ms. Morales commented that a reorganization of staff occurred within the Community Development Department and a compliance section has been established.

In response to a question posed by Committeemember Glover, Ms. Morales explained if funding for a program stops or a project is no longer performing, those funds can be reallocated and there is no penalty. She advised a penalty only occurs if the spending requirements are not met.

In response to a question posed by Chairman Freeman, Ms. Morales advised the process in which organizations submit invoices, which includes the work that was completed and has been successful, and the area that needed improvement was understanding program rules and identifying issues.

4. Contract Monitoring – Facilities Maintenance

Ms. Ruttman advised that after reviewing the contracts with Facilities Maintenance it was found that 10% of expenditures exceeded contract limits. She pointed out the department was using purchase orders to acquire additional funds for a project instead of following the process in place. She explained it is important for departments to accurately forecast the cost of a project and the estimated requirements to attract the best company.

Ms. Ruttman pointed out that the department has changed their practice and are no longer using purchase orders for contracted services.

5. Follow-up Review – Water Resources Asset Management

Ms. Ruttman advised the Audit Department reviewed the asset management programs to find out if the Water Resources Department was using data about the assets to prioritize the Capital Improvement Program. Ms. Ruttman provided an example of the pipes in the ground. She explained the Water Resources Department follows a life-cycle management program policy to know where the pipes are, how old they are, and what condition they are in. She advised this gives the engineers a better idea of which pipes need to be replaced.

6. Follow-up Review – Communications Inventory

Ms. Ruttman provided a follow-up to the Communication's inventory and advised all recommendations have been implemented.

Chairman Freeman asked that a follow-up presentation be given at the next meeting to advise if the corrective actions plans and trainings have been implemented. He added another status follow-up presentation on the Water Department is not needed as the Audit Department feels comfortable with the results thus far.

The committee thanked staff for their hard work and presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 8:53 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 21st day of February, 2018. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

mh
(Attachments – 1)

City Auditor

Audit, Finance, and Enterprise Committee February 21, 2018





Audit Reports

1. Cash Funds – FY 2017 Annual Report
2. Contract Monitoring – Mesa Arts Center
3. Contract Monitoring – Community Services Dept.
4. Contract Monitoring – Facilities Maintenance
5. Follow-up Review – Water Resources Asset Mgmt.
6. Follow-up Review – Communications Inventory



Cash Funds – FY 2017 Annual Report

Report Date: 7/31/2017



Cash Funds

Why we continuously audit cash funds:

- Errors/irregularities – detect & address in a timely manner to reduce losses.
- Consistency – reinforce policies & procedures.
- Build productive relationships – answer staff questions & concerns; and offer assistance when possible.



Cash Funds

Observations:

- Overall, effective processes are in place to protect cash.
- Minor opportunities for improvement:
 - Check handling
 - Reconciliations
 - Transport procedures



Cash Funds

Follow-up from prior report:

- Recommended 2 policy revisions.
- Partially implemented as of 7/31/2017.
- Fully implemented 1/10/2018.



Contract Monitoring Mesa Arts Center (MAC)

Report Date: 9/12/2017



Contract Monitoring – MAC

Observations:

- Effective processes are in place to protect the City.
- Minor opportunities for improvement:
 - Ensure contracts reflect intent – if not, amend or re-bid.
 - Pay the contracted rate – no more/no less.
 - Ensure staff have direct access to contract documents.



Contract Monitoring Community Services Dept. (CSD)

Report Date: 8/2/2017



Contract Monitoring – CSD

Contracts reviewed: West Mesa CDC

- \$90,000 (CDBG) Economic Development Activities – Technical assistance to small businesses to create LMI jobs.
- \$10,000 (General Fund) Neighborhood Outreach – Training and neighborhood events, i.e. renter education, HOA academy, neighborhood forum.



Contract Monitoring – CSD

Finding #1: (Economic Development Contract)

- Claim reimbursement monitoring did not detect and/or address compliance deficiencies prior to payment.
 - Documents did not provide evidence of compliance.
 - Documents were not critically evaluated by staff.



Contract Monitoring – CSD

Recommendations:

1. Use HUD-provided tools to improve monitoring processes.
2. Don't accept attestations of compliance – require evidence.
3. Critically evaluate evidence for sufficiency.
4. Understand all applicable regulations.
5. Prioritize staff assignments/resources based on risk.
6. Develop procedures for tracking/resolving findings.



Contract Monitoring – CSD

Finding #2: (Neighborhood Outreach contract)

- Staff were not aware of contract terms.
- Payments were issued without verifying deliverables.

Recommendations:

1. Staff should understand all contract terms.
2. Payment should only be made after terms are met.



Contract Monitoring Facilities Maintenance Division

Report Date: 1/22/2018





Contract Monitoring – Facilities

Finding #1: Expenditures exceeded contract limits.

- 3 out of 23 contracts.
- Overages of \$64,300 – \$101,500 in FY17.
- Reasons – Inability to forecast costs; no internal controls to prevent use of multiple payment methods.



Contract Monitoring – Facilities

Recommendations:

1. Use Delivery Orders (not POs) for contracted services.
2. Train staff to forecast costs more accurately.
3. Obtain dollar limit increases if necessary; don't use PO to exceed existing limits.
4. Ensure estimated requirements are realistic when establishing contracts.



Contract Monitoring – Facilities

Finding #2: Invoiced charges were not verified for compliance with contract terms.

- Unauthorized labor charges.
- Unverified parts charges.

Recommendations:

1. Staff should verify accuracy of charges prior to payment.
2. Contractors with cost+% pricing should provide cost data.



Follow-up Review Water Resources Asset Management



Follow-up Review – Water Resources **Asset Management**

Previous recommendations:

1. Formalize an asset life-cycle management program policy.
2. Periodically assess critical assets and use this information in a structured planning process.
3. Develop risk assessment process to help prioritize CIP.
4. Assign plant staff to Asset Management Project Advisory Committee.



Follow-up Review – Water Resources **Asset Management**

Follow-up results:

Most corrective action plans were successfully implemented or are on track to finish by revised estimated completion dates. Extended implementation dates include:

CAP #2: June 2019

CAP #3: December 2019



Follow-up Review Communications Inventory Management



Follow-up Review – Communications **Inventory Management**

Previous recommendations:

1. Identify and dispose of obsolete items.
2. Review and update written policies and procedures.
3. Document chain of custody in and out of the warehouse.
4. Maintain accurate status and location data for assets.
5. Comply with records retention policies.



Follow-up Review – Communications Inventory Management

Follow-up results:

All corrective action plans associated with the audit have been successfully implemented.

Questions?

