



AUDIT, FINANCE & ENTERPRISE COMMITTEE

February 27, 2012

The Audit, Finance & Enterprise Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on February 27, 2012 at 3:33 p.m.

COMMITTEE PRESENT

Alex Finter, Chairman
Dina Higgins
Scott Somers

COMMITTEE ABSENT

Christopher Brady, Ex Officio

STAFF PRESENT

Trish Sorensen
Debbie Spinner

(Items were discussed out of order, but for purposes of clarity will remain as listed on the agenda.)

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation, discuss and accept the City's Comprehensive Annual Financial Report (CAFR) and Single Audit Report for Fiscal Year Ended June 30, 2011.

Sandy Cronstrom, a partner with CliftonLarsonAllen, LLP, the City's external audit firm, City Controller Doug Yeskey and Manager of Technology & Innovation Alex Deshuk introduced themselves to the Committeemembers.

Mr. Yeskey stated that the City of Mesa's Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2011 received an unqualified opinion. **(The CAFR is available for review in the City Clerk's Office and will be made part of the official minutes/attachments of the meeting.)**

Mr. Yeskey reported that there were three restatements in the CAFR, which was somewhat unusual from past years. He explained that the first restatement was the result of a change in the Governmental Accounting Standards Board's (GASB) standards for financial reporting. He indicated that the City implemented the provisions of GASB Statement 54 (which redefined the definitions of various governmental fund types) and said this required the City to move certain monies from one fund to another.

Mr. Yeskey advised that the second restatement was due to non-cash errors that occurred in prior years. He noted that adjustments were made to take the City's cash-basis system to an

accrual-basis system, which was required for the financial report. Mr. Yeskey also pointed out that over the course of four years, the City recorded a loss on a joint venture activity related to the Greenfield Water Reclamation Plant and said that it was necessary to reclassify depreciation to the loss. He remarked that the correction resulted in a \$23 million restatement. Mr. Yeskey further commented that the City understated its assets on its balance sheet by the same amount and overstated accumulated appreciation, all of which were adjusted. He added that another adjustment was made to correct depreciation expenses that were recorded twice.

Responding to a question from Chairman Finter, Mr. Yeskey clarified that in order to avoid similar errors in the future, it would be important for him to have sufficient time to review staff's work, since the current accounting system requires that many manual adjustments be made to the financial statements. He cautioned, however, that the implementation of CityEdge would not eliminate all such adjustments, including certain gap-basis adjustments. Mr. Yeskey, in addition, stressed the importance of his staff receiving the necessary training so that they would be able to recognize errors that occur. He added that although he has staff members assigned to the CityEdge project, he did not want to use that as an excuse for the errors.

Ms. Cronstrom confirmed Mr. Yeskey's comments and said that an error occurred regarding an accounting entry to the capital assets system which, in her opinion, was "a very complicated system." She said that the implementation of CityEdge was "a step in the right direction" to ensure that an error of this type does not occur in the future.

In response to a question from Committeewoman Higgins, Mr. Yeskey provided an extensive analysis of Exhibits A-2, A-3 and A-4 of the CAFR. **(See Attachment 1, Pages 1 through 4)**

Committeewoman Higgins suggested that since the CAFR was such a complex document, that it might be helpful next year if the Committee was given additional time to review the report with staff.

Mr. Yeskey further remarked that since the City receives Federal grant funding, the Single Audit Report was a requirement under the Single Audit Act. **(The Single Audit Report is available for review in the City Clerk's Office and will be made part of the official minutes/attachments of the meeting.)** He explained that the external audit firm conducts a review of the City's internal control over financial reporting and the grants, which results in various findings.

Mr. Yeskey briefly reviewed "Section II – Financial Statement Findings, Finding 1" of the Single Audit Report (See Page 5 of Attachment 1), which relates to GASB Statement 54. He explained that the findings were included in the report to reflect a weakness in the City's internal control system and added that staff submitted a Corrective Action Plan to address the weakness.

Mr. Yeskey advised that Ms. Cronstrom was prepared to address "Section II – Financial Statement Findings, Finding 2 (See Page 6 of Attachment 1), which addressed the City's grant accounting. He noted that his office has worked extensively with the Housing and Community Development Department and has made great strides with respect to this issue. Mr. Yeskey added that when the audit was conducted, staff was already six months into the new fiscal year and said it was anticipated that there would be repeat findings in next year's audit.

Ms. Cronstrom reiterated that Finding 2 relates to the City's grants and noted that the City had the same issue last year. She explained that most of the grants are funded on a reimbursement basis and commented that the City lagged behind in submitting requests for the reimbursements. Ms. Cronstrom pointed out that there were a number of large receivables included in the financial statements related to grants.

In response to a question from Committeemember Somers, Mr. Yeskey clarified that the City hired a Grants Coordinator to identify possible grants.

Committeemember Somers commented that it was his understanding that the Grants Coordinator would not only assist the City in identifying grant opportunities, but also manage the grants process so that staff would not fall behind in their paperwork.

Mr. Deshuk clarified that a module dedicated to grants lifecycle management has been integrated into the CityEdge project. He said that the Citywide Grants Coordinator, who reports to the City Manager's Office, was responsible for developing a policy to use the new automation/technology to ensure that all grants are correctly processed through this system.

Housing and Community Development Director Tammy Albright addressed the Committee and acknowledged that her department had a backlog of past accounts receivable. She stated that four months ago, her department hired a Grants Accountant, who already has "cleaned up" the past four years of accounts receivable. Ms. Albright also remarked that staff implemented an automated system to process invoice requests and said that it was her goal to process all reimbursements within 30 to 60 days.

Chairman Finter recognized Ms. Albright and her staff for their efforts to work with Federal agencies with respect to grant funding processes and said they had the full support of the Committee in this regard.

Responding to a series of questions from Committeemember Somers, Ms. Albright indicated that her staff not only had difficulty managing the grants, but also the contracts for the grants. She explained that every contract is accompanied by several requests for reimbursement and stated that the more contracts staff receives, the more reimbursement requests they are required to process and manage. Ms. Albright added that staff recently revamped the City's contract for grants, which has expanded from 30 pages to 100 pages.

Committeemember Somers voiced concern that a 100-page contract would become more onerous and less friendly for the sub-recipients and questioned how it would help with the grants process.

Ms. Albright clarified that much of the revised contract consists of exhibits and timesheets, which staff developed with the assistance of the U.S. Department of Housing and Urban Development (HUD). She explained that prior to distributing the contracts, staff will meet with the individual sub-recipients to thoroughly explain the grants and what is expected of the entity. Ms. Albright pointed out that whether a grant for services is \$10,000 or \$100,000, from a staffing perspective, it takes the same amount of time to administer.

Committeemember Somers commented that if, for instance, the City had \$3 million in Community Development Block Grant (CDBG) funding and awarded a series of \$10,000 grants,

it would be extremely onerous and difficult for staff to manage the grants, especially if each sub-recipient had its own 100-page contract. He said that in the alternative, the City could award three \$1 million grants that required the same amount of paperwork, but less staff time to manage and administer the associated contracts. Committeemember Somers suggested that it might be appropriate for the Council to consider these different scenarios when reviewing the CDBG, the Home Investment Partnerships Program (HOME) and Emergency Shelter Grant (ESG) funding recommendations this year.

Ms. Cronstrom continued with her presentation and reported that Findings 3 through 11 of the Single Audit Report (See Pages 7 through 15 of Attachment 1) relate to specific compliance issues that the audit revealed for the programs that were selected for testing this year. She stated that the auditor was given a copy of the Schedule of Financial Assistance, which details all of the grants, and was required to select certain programs based on size, risk (i.e., prior year findings) or funding errors.

Discussion ensued relative to the fact that it was the opinion of the external audit firm that the Action Plans for Findings 3 through 11 were very reasonable and that many of the plans have already been implemented; that in the past few years, the audit has found consistent mistakes with respect to timesheets, the time charged to specific grants and the ability to document that the time worked/charged was a legitimate and allowable cost for such a grant; and that the "universal timesheet" that staff developed with HUD will ensure that an employee of a non-profit does not charge one city the same number of hours they charge another city.

Chairman Finter commented that it was not necessary for Ms. Cronstrom to review Findings 3 through 11 since the Committee already had the data with respect to those items.

In response to a question from Chairman Finter, Ms. Cronstrom stated that with the implementation of CityEdge, she would anticipate that her firm and City staff would be able to complete the CAFR in a timelier manner. She also commented that with respect to the Single Audit Report, she acknowledged that there were "a few problems" with the Housing and Community Development Department and said that it would take a few years to work through those issues.

It was moved by Committeewoman Higgins, seconded by Chairman Finter, to recommend to the full Council that the CAFR and Single Audit Report for Fiscal Year Ended June 30, 2011, be accepted.

Carried unanimously.

Chairman Finter thanked everyone for the comprehensive presentation.

2-b. Hear a presentation and discuss the Investment Portfolio review.

Assistant Controller Susan Christensen, City Controller Doug Yeskey and Manager of Technology & Innovation Alex Deshuk addressed the Committee relative to this agenda item.

Ms. Christensen displayed a PowerPoint presentation (**See Attachment 2**) and discussed the City of Mesa's investment policy objectives (See Page 2 of Attachment 2) and the City's investment portfolio. (See Page 3 of Attachment 1)

Ms. Christensen explained that the State Treasurer's Office Local Government Investment Pool (LGIP) portfolio investment mix (Pool 7) consists of short-term, low-risk investments. She noted that as of December 31, 2011, the City's LGIP investment was \$132 million or 41% of its total investment. She also stated that the LGIP's (Pool 7) December earning rate was 0.04% (net of 6 basis point fees), with fiscal year to date earnings of \$56,432.

Ms. Christensen further reported that the LGIP portfolio investment mix (Pool 700) includes low risk investments with maturity from one to four years. She indicated that as of December 31, 2011, the City's investment was \$10 million or 3% of its total investment. Ms. Christensen noted that the LGIP's (Pool 700) December earnings rate was 1.0% (net of 6 basis point fees) and said that fiscal year to date earnings totaled \$63,874. She said that additional investments have not been made due to the fact that there was a limitation with respect to when the funds could be withdrawn and associated interest rate risks.

Responding to a question from Committeewoman Higgins, Mr. Yeskey clarified that the City has not increased its investment in Pool 700 due to various withdrawal limitations. He stated that the City was investing more dollars with PFM Asset Management (PFM), a private investment management company.

Discussion ensued relative to the fact that the City's original investments were in Pool 7; that investing in Pool 700 was an opportunity for the City's investment to be spread across different instruments based on the City's investment objectives of safety of principal, sufficient liquidity to meet operating requirements, and maximize rate of return; that Mr. Yeskey's staff was working to determine a more accurate projection of the City's day-to-day cash flow basis so that the City could invest in higher-return investments; and that at the present time, the City "is very safe" with respect to its cash flow.

Chairman Finter expressed support for staff's approach to be "a little more aggressive" and yet remain cautious with respect to the City's investments.

In response to a question from Committeewoman Higgins, Mr. Deshuk advised that Ms. Christensen and Budget Director Candace Cannistraro were assessing cash flow for bond sales, payoffs for bonds, and also consulting with the Engineering Department regarding the status of various construction schedules. He said that cash flow numbers are not static and change frequently.

Mr. Yeskey also pointed out that staff endeavors to transfer more money out of Pool 7 to PFM, and was working with the private investment firm to update the City's cash flows, provide revenue projections, future bond sales, debt payment and "usual payouts" for payroll.

Mr. Deshuk stated that at the Committee's next meeting, staff would be happy to provide a spreadsheet illustrating the amount of cash on hand that was necessary in order for the City to operate; the amount of excess cash per month; a margin of safety; and the remaining funds that would be invested between the City's different portfolios.

Chairman Finter commented that it was "eye opening" to him that the City's current day-to-day cash flow requirement was \$40 million.

Mr. Deshuk noted that in December 2011 and January 2012, staff met with representatives of PFM to coordinate the City's debt service/cash flow payments. He added that the parties also meet on a monthly basis with respect to the City's portfolio update.

Chairman Finter thanked everyone for the presentation.

2-c. Hear a presentation and discuss an update on Banking Services.

City Controller Doug Yeskey displayed a PowerPoint presentation (**See Attachment 3**) and reported that on January 18, 2012, staff issued a Request for Qualifications (RFQ) for an independent banking services consultant to assist the City in creating a Request for Proposals (RFP) for a banking services contract. He stated that on January 30th, the bids were received and reviewed and noted that PFM Asset Management (PFM), the City's private investment management company, submitted the only bid.

In response to a question from Committeewoman Higgins, Manager of Technology & Innovation Alex Deshuk advised that there was a limited number of companies that perform this type of consulting work. He stated that the City was interested in an entity that had an understanding of municipal government and was not affiliated with any financial institutions. He added that the RFQ was issued to four to six entities and advertised in various purchasing journals.

Mr. Yeskey pointed out that PFM has performed similar consulting work for other municipalities throughout the country.

Mr. Yeskey remarked that the City was currently in contract negotiations with PFM and hoped to have that process completed by July 1, 2012. He indicated that if PFM were awarded the contract, the company would discuss banking policies/procedures with key City staff and provide recommendations regarding the City's current use of banking services. Mr. Yeskey discussed the future steps in this process, including the creation of the RFP. (See Page 2 of Attachment 3) He said that it was anticipated that the banking services contract would be in place by July 1, 2013.

Discussion ensued relative to the potential evaluation criteria that would be included in the RFP; that such criteria would consist of the size/fiscal stability of the bank; firms that could provide the City with community outreach; and the ability to seamlessly convert the City's banking processes.

Chairman Finter commented that he was not promoting a specific bank, but stressed the importance that local and non-local banks receive "a fair shot" and have the opportunity to pursue the RFP for the City's banking services contract.

Responding to a question from Committeewoman Higgins, Mr. Deshuk clarified that it was necessary for the City to seek out a consultant to develop an RFP for the City's banking services due to the fact that the City has limited manpower to do so and never gone through this process before.

Mr. Yeskey advised that the City was currently using a cooperative contract with the City of Tempe for its banking services with Chase.

Further discussion ensued relative to the fact that unlike the RFP, which would be presented to the Council for approval, the RFQ is considered a professional services contract and would not be brought back to the Council.

Chairman Finter thanked staff for the presentation.

2-d. Hear a presentation and discuss Solar and Efficiency Pilot Programs.

Energy Resources Department Director Frank McRae displayed a PowerPoint presentation (**See Attachment 5**) and reported that as part of the 2011 Electric Integrated Resource Planning (IRP) process (See item 2-e), staff developed an Action Plan to enhance the City's current Solar Program; identify opportunities to install solar panels on City-owned utility facilities/assets; and heightened energy efficiency and conservation efforts. He explained that staff also recognized the importance of providing supplemental information to customers in an effort to enhance their decisions with respect to solar energy. Mr. McRae noted that in addition, staff developed energy audits for commercial entities and solicited customer feedback in workshops and via the City website. He added that there was strong evidence that customers are conserving energy.

Mr. McRae briefly reviewed the various components of the City's current Solar Program (See Page 4 of Attachment 5), which emphasizes the benefits of energy efficiency. He remarked that the City employs a mechanism called "net billing," which delivers approximately 90% of the benefits to the customer of "net metering." Mr. McRae explained that with respect to net billing, if a customer's energy exceeds what is being consumed at a period of time, the meter stops and does not spin backwards, which occurs with net metering.

Responding to a question from Committeewoman Higgins, Mr. McRae clarified that the electricity that a customer produces but does not use would flow into the City's electrical system. He explained that when a meter is allowed to spin backwards, the City pays the customer the full retail rate (\$0.10 to \$0.12 per kilowatt hour) for the energy that is produced. He said that the comparative market price of that energy is between \$0.01 (winter) and \$0.03 (summer) per kilowatt hour. Mr. McRae added that the customer pays \$0.10 to \$0.12 per kilowatt hour, which includes the purchase of the electricity and all other costs associated with providing the service to the residence.

Committeemember Somers questioned why the City would pay a solar customer \$0.12 per kilowatt hour for energy that has the value of \$0.03 per kilowatt hour. He suggested that it might be more appropriate to credit the customer the \$0.03 per kilowatt hour.

Mr. McRae clarified that staff utilizes a market index that measures what the City would otherwise purchase on the market but for the production of electricity from the customer. He stated that the public and City management have encouraged staff to promote renewable resources and customer-owned solar.

Mr. McRae further remarked that if the Council directed staff to pursue different options, staff would be happy to do so. He noted that in working with legal counsel on this issue, it was his understanding that there were no Federal or State laws which mandate that the City offer net metering or any other incentives for customer-owned generation of solar energy.

Discussion ensued relative to the issue of electric rate decoupling; that on a short-term basis, with the implementation of a decoupling mechanism, it would be important for the City to recover 90% of its costs, regardless of a customer's consumption; that in the long term, the City could adjust its resource mix (i.e., how much power is purchased on the market); that components such as transmission and distribution do not fluctuate long term, although the generation of electricity would; and that the payback period for the cost of the installation of a solar system, even with net billing, would be reduced from 20-plus years to a little less than 20 years.

Committeewoman Higgins commented that in her opinion, it would make more sense to give a credit to the customer for the kilowatts produced, in an effort to create a bank of kilowatts, as opposed to the City paying the customer the full retail rate for the energy produced.

Mr. McRae continued with his presentation and highlighted staff's 2012 Solar Proposal as follows:

- Implement a 12-month pilot program, which would be modeled after Salt River Project's (SRP) current program. (Utilize the residential format to apply to both commercial and residential.)
- Provide rebates and net metering.
- Impose caps on the rebates and the number of customers to mitigate any negative financial effects.
- Recover the rebate upfront costs (dollars/kilowatt) through the Electric Energy Cost Adjustment Factor (EECAF).

Mr. McRae also reviewed a chart illustrating the various elements of the residential and commercial rebate program. (See Page 5 of Attachment 5) He stated that the proposal would call for five residential and ten commercial properties to participate in the pilot program.

Mr. McRae, in addition, discussed the 2012 Energy Efficiency Proposal (See Pages 6 and 7 of Attachment 5) and the next steps in the process. (See Page 8 of Attachment 5)

Chairman Finter stated that it was the consensus of the Committee that this item be forwarded on to the full Council for consideration.

Chairman Finter thanked Mr. McRae for the presentation.

2-e. Hear a presentation and discuss Integrated Energy Resource Plans and Energy Supply Contracts.

Energy Resources Department Director Frank McRae displayed a PowerPoint presentation **(See Attachment 4)** and reported that the City's Energy Resources Department currently serves the needs of 15,400 electric customers and 53,000 gas customers. He explained that Integrated Resource Planning (IRP), which is considered an industry best practice, was a process utilized by staff to systematically analyze the customers' energy requirements with short-term and long-term planning horizons. Mr. McRae said that staff assesses available resources and determines which "resource mix" should be pursued to meet those energy needs. He added that staff solicits input from the electric customers at various public meetings and also obtains suggestions from citizens via iMesa.

Mr. McRae highlighted a flowchart illustrating the IRP process. (See Page 6 of Attachment 4) He also reviewed schematic drawings of the Electric Utility network (See Page 4 of Attachment 4) and the Natural Gas Utility network. (See Page 5 of Attachment 4)

Mr. McRae remarked that with respect to the City's Electric Resource Portfolio and Plan, decisions made years ago have influenced current electric options, resource requirements and forecasts. He noted that the Electric Resource Department has outsourced the management of its resources to the Western Area Power Administration (WAPA).

Mr. McRae, in addition, offered a short synopsis of the City's current electric contracts (See Pages 8 and 9 of Attachment 4) and the current gas contracts. (See Page 10 of Attachment 4) He pointed out that the City's current gas contract with Shell Energy North America (SENA), which commenced in November 2011, was a fixed-price contract of \$3.29/MMBTU (one million British thermal unit). He said it represents a significant savings over Mesa's prior contract, which was an index price (discount of \$0.15 off the index – floor of \$4.95) based upon production at the San Juan Basin.

Discussion ensued relative to the fact that staff has identified a number of resource options; that in mid-2011, the City issued a Request for Proposals (RFP) to 32 suppliers; that customers have encouraged the City to pursue acquisition of renewable resources; that staff determined that short-term contracts (less than five years) are most suitable and economic for the City in the near term and will use those types of responses to the RFP to replace the existing contracts; and various components of the resource selection process. (See Page 12 of Attachment 4)

Mr. McRae further reported that in January of this year, the contracts for the above-referenced RFP were approved. He said that the replacement of the primary contract resulted in an estimated 40% of the City's energy requirements being met. Mr. McRae further remarked that the City received good pricing on the contracts and added that staff anticipates that the mix of resources in the contracts will allow the City to reduce its utility rates by approximately 4%.

Extensive discussion ensued relative to the matter of electric/gas rate decoupling; that there has been a reduction of usage on the part of electric customers, as well as a loss of customers in Mesa's electric service area that would help the Electric Utility stabilize its revenue; that to date, the Electric Utility has been able to manage the customer loss and reduce energy through cost containment, thereby not causing the financial issues that it might for some utilities that have requirements imposed upon them to reduce their customers' consumption; that if it were the direction of the Council that staff move forward with the issue of rate decoupling for the City's electric and gas utilities, staff would do so; and various methods by which to design the decoupling mechanism (i.e., customer growth may or may not influence the revenue stability; seasonal and weather variations; and consumption would not dramatically impact the revenue as it has in the past).

Mr. McRae continued with the presentation and briefly summarized the new Electric Resource contracts (See Page 14 of Attachment 4) and the new Gas Resource contracts. (See Page 15 of Attachment 4)

Chairman Finter thanked Mr. McRae for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 5:04 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 27th day of February 2012. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

pag
(attachments – 5)

CITY OF MESA, ARIZONA
EXHIBIT A-2
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government:				
Governmental Activities:				
General Government	\$ 59,551,669	\$ 17,109,537	\$ 1,777,282	\$ -
Public Safety	273,320,156	9,584,232	1,107,338	4,521,268
Cultural-Recreational	54,549,751	9,826,530	697,505	-
Community Environment	106,434,114	8,189,159	61,701,867	26,940,181
Interest on Long-Term Debt	21,078,138	-	-	-
Total Government Activities	514,933,828	44,709,458	65,283,992	31,461,449
Business-type Activities:				
Electric	26,816,560	33,138,456	-	196,343
Gas	36,020,012	41,369,805	15,463	380,514
Water	82,377,888	102,215,430	10,000	5,950,015
Wastewater	63,613,492	59,659,464	-	3,516,496
Solid Waste	31,462,070	47,537,833	-	75,020
Airport	3,971,648	3,317,542	-	505,604
Golf Course	2,679,327	2,250,256	-	50,000
Convention Center	3,849,444	2,825,693	-	-
Hohokam Stadium/Fitch Complex	8,323,724	6,161,320	-	99,996
Cubs Stadium	14,990	51,614	-	-
District Cooling	964,585	945,434	-	-
Total Business-type Activities	260,093,740	299,472,847	25,463	10,773,988
Total Primary Government	\$ 775,027,568	\$ 344,182,305	\$ 65,309,455	\$ 42,235,437

General Revenues:
 Sales Taxes
 Property Taxes
 Occupancy Taxes
 Unrestricted State Shared Revenue
 Contributions Not Restricted to Specific Programs
 Unrestricted Investment Income
 Miscellaneous
 Transfers In (Out)
 Total General Revenues and Transfers
 Change in Net Assets
 Net Assets - Beginning, as Restated
 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

EXHIBIT A-2 (Continued)

**Net (Expense) Revenue and
 Changes in Net Assets**

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (40,664,850)	\$ -	\$ (40,664,850)
(258,107,318)	-	(258,107,318)
(44,025,716)	-	(44,025,716)
(9,602,907)	-	(9,602,907)
(21,078,138)	-	(21,078,138)
<u>(373,478,929)</u>	<u>-</u>	<u>(373,478,929)</u>
-	6,518,239	6,518,239
-	5,745,770	5,745,770
-	25,797,557	25,797,557
-	(437,532)	(437,532)
-	16,150,783	16,150,783
-	(148,502)	(148,502)
-	(379,071)	(379,071)
-	(1,023,751)	(1,023,751)
-	(2,062,408)	(2,062,408)
-	36,624	36,624
-	(19,151)	(19,151)
<u>-</u>	<u>50,178,558</u>	<u>50,178,558</u>
\$ (373,478,929)	\$ 50,178,558	\$ (323,300,371)
121,046,053	-	121,046,053
14,243,721	-	14,243,721
2,148,216	-	2,148,216
92,612,858	-	92,612,858
15,610,470	-	15,610,470
617,419	839,348	1,456,767
7,060,132	-	7,060,132
83,334,303	(83,334,303)	-
<u>336,673,172</u>	<u>(82,494,955)</u>	<u>254,178,217</u>
(36,805,757)	(32,316,397)	(69,122,154)
<u>942,027,990</u>	<u>776,756,230</u>	<u>1,718,784,220</u>
<u>\$ 905,222,233</u>	<u>\$ 744,439,833</u>	<u>\$ 1,649,662,066</u>

CITY OF MESA, ARIZONA
EXHIBIT A-3
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 JUNE 30, 2011

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Pooled Cash and Investments	\$ 89,564,715	\$ 651	\$ 95,419,064	\$ 184,984,430
Accounts Receivable (Net of Allowances)	15,396,233	31,390	1,627,766	17,055,389
Accrued Interest Receivable	99,363	-	45,018	144,381
Due From Other Governments	13,814,450	3,403,117	3,054,502	20,272,069
Due From Other Funds	1,915,000	-	-	1,915,000
Prepaid Costs	404,506	-	2,905,610	3,310,116
Deposits	363,733	-	-	363,733
Restricted Assets:				
Pooled Cash and Investments	-	-	37,953,905	37,953,905
Cash With Trustee	-	-	22,490,388	22,490,388
Accounts Receivable	4,332,101	-	5,648,845	9,980,946
Due From Other Governments	-	-	22,993,869	22,993,869
Total Assets	<u>\$ 125,890,101</u>	<u>\$ 3,435,158</u>	<u>\$ 192,138,967</u>	<u>\$ 321,464,226</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants Outstanding	\$ 2,341,770	\$ -	\$ -	\$ 2,341,770
Accounts Payable	11,619,957	1,519,350	7,731,056	20,870,363
Due To Other Funds	-	1,915,000	-	1,915,000
Customer and Defendant Deposits	3,153,061	25	5,889,749	9,042,835
Compensated Absences	1,048,067	-	-	1,048,067
Payable From Restricted Assets:				
Accrued Lease Interest Payable	-	-	194	194
Accrued Bond Interest Payable	-	-	9,749,172	9,749,172
Accrued Note Interest Payable	-	-	756,250	756,250
Deferred Revenue	6,558,186	-	5,648,845	12,207,031
Matured General Obligation Bonds Payable	-	-	21,675,399	21,675,399
Matured Highway User Rev. Bonds Payable	-	-	6,030,000	6,030,000
Matured Capital Leases Payable	-	-	50,043	50,043
Total Liabilities	<u>24,721,041</u>	<u>3,434,375</u>	<u>57,530,708</u>	<u>85,686,124</u>
Fund Balances				
Nonspendable	404,506	-	2,905,610	3,310,116
Restricted	1,991,911	783	112,537,018	114,529,712
Committed	4,897,687	-	19,165,631	24,063,318
Unassigned	93,874,956	-	-	93,874,956
Total Fund Balances	<u>101,169,060</u>	<u>783</u>	<u>134,608,259</u>	<u>235,778,102</u>
Total Liabilities and Fund Balances	<u>\$ 125,890,101</u>	<u>\$ 3,435,158</u>	<u>\$ 192,138,967</u>	<u>\$ 321,464,226</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA

EXHIBIT A-4

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund Balances - total governmental funds	\$ 235,778,102
Amounts reported for governmental activities in the statement of net assets are different because (also see Note 3 to the basic financial statements):	
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.	1,276,127,429
Other assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.	55,911,845
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	(685,842,777)
Deferred revenue for long-term rehabilitation loans and special assessments is shown on the governmental funds, but is not deferred on the statement of net assets.	5,720,566
Internal service funds are used by management to charge the costs of certain activities to individual funds.	<u>17,527,068</u>
Net assets of the governmental activities - statement of net assets	<u>\$ 905,222,233</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MESA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-1	<i>Condition/Context</i>	Material prior period adjustments were necessary as capital assets were understated in prior years due to errors made recording the activity of joint ventures and calculating depreciation expense on capital leases. In addition, investment balances were overstated and a transit grant receivable was understated at year-end.
	<i>Criteria</i>	Generally accepted accounting principles.
	<i>Effect</i>	Material prior period adjustments were made by the City. In addition, material audit adjustments were recommended to properly state the investment balances and grants receivable.
	<i>Cause</i>	The City is currently in the planning stages of a City-wide software conversion. Several members of the City's Finance Department are serving an integral role in this conversion. As a result, several of the audit schedules were prepared by staff members who were not accustomed to completing these schedules. In addition, due to the significant time commitment for the software conversion, these schedules were not always properly reviewed by senior staff members.
	<i>Recommendation</i>	In order to ensure that the City's Comprehensive Annual Financial Report is accurately prepared, the City should exercise due care in the preparation and review of the audit schedules used to prepare the CAFR.
	<i>Corrective Action Plan</i>	Staff members have been informed of the adjustments that were required and shown how the corrected schedules should be prepared in the future. All schedules and journal entries will be reviewed for accuracy going forward.
	<i>Contact Person</i>	Doug Yeskey, Controller

CITY OF MESA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-2	<i>Condition</i>	Most of the City's grants were funded on a reimbursement basis. The grants require the City first incur and fund an eligible expenditure and then apply for reimbursement of the expenditures. However, not all reimbursements were requested on a regular basis.
	<i>Context</i>	During our single audit compliance testwork, we noted reimbursement requests submitted in the Community Development Block Grant, Neighborhood Stabilization, Homeless Prevention and Rapid Re-Housing and HOME Investment Partnership Program were submitted several months after the expenditures were incurred.
	<i>Criteria</i>	Internal control procedures.
	<i>Effect</i>	Internal control weakness. In addition, the City had incurred significant expenditures for which they were awaiting reimbursement.
	<i>Cause</i>	Managerial oversight.
	<i>Recommendation</i>	In order to strengthen internal controls over its grant accounting, the City should ensure that grant reimbursement claims are submitted in a timely manner.
	<i>Corrective Action Plan</i>	Accounting and Housing departments are meeting monthly to review all outstanding expenditures and requests for reimbursement. In addition, staff members from accounting and housing review the expenditures and reimbursements to ensure the expenditures are proper and what reimbursements have been received.
	<i>Contact Person</i>	Doug Yeskey, Controller

CITY OF MESA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMMUNITY DEVELOPMENT BLOCK GRANT, ARRA COMMUNITY DEVELOPMENT BLOCK GRANT -
NEIGHBORHOOD STABILIZATION PROGRAM
CFDA No.'s 14.218, 14.253

2011-3 *Condition/Context* The City did not submit federal financial report SF 425.

Criteria OMB Circular A-133 – Reporting.

Questioned Costs None noted.

Effect Noncompliance with OMB Circular A-133.

Cause The City's Housing Department was unaware of the requirements of the grant agreements.

Recommendation In order to comply with OMB Circular A-133, the City should ensure that all federal financial reports are submitted in accordance with the granting agency's requirements.

Corrective Action Plan The Housing and Community Development Department has created a Calendar of Reporting Requirements Deadlines with the technical assistance of HUD consultants. The Department is currently modifying the tracking calendar to incorporate all critical deadlines related to grant requirements. The Department has submitted all past federal financial reports SF 425 and is on target for fiscal year 2011/2012.

Contact Person Tammy Albright, Housing and Community Development Director

CITY OF MESA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMMUNITY DEVELOPMENT BLOCK GRANT, ARRA COMMUNITY DEVELOPMENT BLOCK GRANT -
NEIGHBORHOOD STABILIZATION PROGRAM
CFDA No.'s 14.218, 14.253

2011-4 *Condition/Context* The City reviews the qualifications of eligible contractors, and after acceptance, the contractor is added to the approved contractor listing. The City lacks a process to ensure the contractor is still in good standing at the time the contract is executed. The time lapsing between the original qualification review and execution of the contract exceeded two years in some instances.

Criteria OMB Circular A-133 requires compliance with provisions of procurement, suspension, and debarment. The City should have internal controls designed to ensure compliance with those provisions.

Questioned Costs None noted.

Effect No instances of noncompliance with the provisions of procurement, suspension or debarment were noted; however the lack of internal controls over these compliance requirements provides an opportunity for a deficiency over compliance.

Cause The City's process did not account for the time lapse between original approval and contract issuance.

Recommendation We recommend the City modify their current process to ensure an adequate review of potential contractors for suspension or debarment at the time the contract is executed. Documentation of such review should be retained.

Corrective Action Plan All new contracts were verified within the Excluded Parties List System (EPLS) <https://www.epls.gov/> for suspension and debarment status; however, procedures were not in place for documenting in file. A copy is currently printed and placed in the contract file. We are working with HUD consultants to modify our written policies and procedures to indicate that we have implemented this process, and this will be completed by approximately February 2012.

Contact Person Tammy Albright, Housing and Community Development Director

CITY OF MESA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMMUNITY DEVELOPMENT BLOCK GRANT, ARRA COMMUNITY DEVELOPMENT BLOCK GRANT -
NEIGHBORHOOD STABILIZATION PROGRAM
CFDA No.'s 14.218, 14.253

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOME INVESTMENT PARTNERSHIP PROGRAM
CFDA No. 14.239

2011-5	<i>Condition</i>	The City applied HOME Investment Partnership Program (HOME) funds to expenditures that were deemed unallowable to the program. Community Development Block Grant (CDBG) and HOME grant expenditures were not always reviewed by management prior to being charged to the grant.
	<i>Context</i>	Two of forty HOME disbursements tested were unallowable expenditures to the federal grant. One of forty HOME and three of eighty CDBG expenditures tested were not reviewed by management.
	<i>Criteria</i>	OMB Circular A-133 – Activities Allowed/Unallowed and Allowable Cost Principles and internal control procedures.
	<i>Questioned Costs</i>	\$409.39
	<i>Effect</i>	Noncompliance with OMB Circular A-133. Lack of review increases the risk that unallowable costs will be charged to the federal grant.
	<i>Cause</i>	Managerial oversight.
	<i>Recommendation</i>	In order to comply with OMB Circular A-133 and strengthen internal controls, we recommend that management review grant expenditures for eligible cost criteria.
	<i>Corrective Action Plan</i>	Staff is currently working on modifying procedures to include additional review of all expenditures of federal programs to ensure all costs reimbursed are eligible to the grant. Currently, expenditure requests are prepared by staff, reviewed by the Fiscal Analyst, and approved by member(s) of management depending on the level of expenditure. A process is being explored to require additional levels of review for internal department funding recipients. Reimbursement requests to HUD will be prepared by staff, reviewed and processed by the Fiscal Analyst, and ultimately approved by a management staff member.
	<i>Contact Person</i>	Tammy Albright, Housing and Community Development Director

**CITY OF MESA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMMUNITY DEVELOPMENT BLOCK GRANT, ARRA COMMUNITY DEVELOPMENT BLOCK GRANT -
NEIGHBORHOOD STABILIZATION PROGRAM
CFDA No.'s 14.218, 14.253**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOME INVESTMENT PARTNERSHIP PROGRAM
CFDA No. 14.239**

2011-6	<i>Condition</i>	The <i>Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Person</i> report was not filed with the annual performance report.
	<i>Context</i>	One of three reports was submitted after the deadline, with errors. Two of three reports were not submitted.
	<i>Criteria</i>	The Code of Federal Regulations (CFR) 24 sections 135.3(a) and 135.90
	<i>Questioned Costs</i>	None noted.
	<i>Effect</i>	Noncompliance with 24 CFR Sections 135.3(a) and 135.90.
	<i>Cause</i>	The City's Housing Department misunderstood grant reporting requirements and deadlines.
	<i>Recommendation</i>	We recommend a reporting deadline monitoring system be considered in order to minimize the risk of missed deadlines. Due care should be exercised during the preparation stages and reports should be reviewed by supervisory personnel prior to submission to a third party.
	<i>Corrective Action Plan</i>	The Housing and Community Development Department has created a Calendar of Reporting Requirements Deadlines with the technical assistance of HUD consultants. The Department is currently modifying the tracking calendar to incorporate all critical deadlines related to grant requirements. Currently there is a written policy in place.
	<i>Contact Person</i>	Tammy Albright, Housing and Community Development Director

**CITY OF MESA, ARIZONA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 COMMUNITY DEVELOPMENT BLOCK GRANT, ARRA COMMUNITY DEVELOPMENT BLOCK GRANT -
 NEIGHBORHOOD STABILIZATION PROGRAM
 CFDA No.'s 14.218, 14.253**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 HOME INVESTMENT PARTNERSHIP PROGRAM
 CFDA No. 14.239**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 ARRA – HOMELESS PREVENTION AND RAPID RE-HOUSING PROGRAM
 CFDA No. 14.257**

2011-7	<i>Condition</i>	Cash reimbursement requests were not submitted timely.
	<i>Context</i>	<p><u>Community Development Block Grant:</u> Draws were only made in July 2010, November 2010 and April 2011. Expenditures incurred in fiscal year 2010 were not reimbursed until November 2010.</p> <p><u>HOME Investment Partnership Program:</u> Nine of eleven cash management requests exceeded one month.</p> <p><u>ARRA Homeless Prevention and Rapid Re-Housing Program:</u> Direct funds have not been requested since November 2010.</p>
	<i>Criteria</i>	Entities receiving federal awards are required to establish and maintain internal controls designed to ensure compliance with federal laws, regulations, and program compliance.
	<i>Questioned Costs</i>	None noted.
	<i>Effect</i>	Noncompliance with OMB Circular A-133 – Cash Management.
	<i>Cause</i>	The City's Housing Department was understaffed during this period of time.
	<i>Recommendation</i>	In order to comply with OMB Circular A-133 and strengthen internal controls over grant accounting, the City should ensure that grant reimbursement claims are submitted in a timely manner.
	<i>Corrective Action Plan</i>	New management team since February 2011, who started to create and implement new processes including the IFP process. The proposed process will be to do draws within 60 days of month end. This is due to limitations of the City systems and the ability to gather supporting documentation to complete the draws. These processes have been reviewed by the City Finance Department, City Manager's Office, and the City Auditor. A new Fiscal Analyst was hired in October 2011 and the finance team is currently in the process of reviewing and updating past AR.
	<i>Contact Person</i>	Tammy Albright, Housing and Community Development Director

**CITY OF MESA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMMUNITY DEVELOPMENT BLOCK GRANT, ARRA COMMUNITY DEVELOPMENT BLOCK GRANT -
NEIGHBORHOOD STABILIZATION PROGRAM
CFDA No.'s 14.218, 14.253**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOME INVESTMENT PARTNERSHIP PROGRAM
CFDA No. 14.239**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
ARRA – HOMELESS PREVENTION AND RAPID RE-HOUSING PROGRAM
CFDA No. 14.257**

2011-8 *Condition/Context* The City's subrecipient monitoring process did not include verifying that the pass-through entity had an annual audit.

Criteria Entities receiving federal awards are required to establish and maintain internal controls designed to ensure compliance with federal laws, regulations, and program compliance.

Questioned Costs None noted.

Effect Noncompliance with OMB Circular A-133 – Subrecipient Monitoring.

Cause The City's Housing Department was unaware of this requirement.

Recommendation In order to comply with OMB Circular A-133, the City should obtain annual audit reports from its subrecipients during the monitoring process.

Corrective Action Plan The City of Mesa Housing and Community Development Department does require all applicants to submit an annual audit with the application file for all federal funding and is included in the file. The department is working to implement policies and procedures with the technical assistance of HUD representatives to require the sub recipients to annually submit their audit reports.

Contact Person Tammy Albright, Housing and Community Development Director

**CITY OF MESA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMMUNITY DEVELOPMENT BLOCK GRANT, ARRA COMMUNITY DEVELOPMENT BLOCK GRANT -
NEIGHBORHOOD STABILIZATION PROGRAM
CFDA No.'s 14.218, 14.253**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOME INVESTMENT PARTNERSHIP PROGRAM
CFDA No. 14.239**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
ARRA – HOMELESS PREVENTION AND RAPID RE-HOUSING PROGRAM
CFDA No. 14.257**

2011-9	<i>Condition</i>	The City did not have time and effort documentation to support wages charged to the federal grant programs. When documentation was maintained it did not always match wages charged to the grant.
	<i>Context</i>	Forty-one of eighty Community Development Block Grant payroll disbursements tested. One of twelve Homeless Prevention and Rapid Re-Housing Program payroll disbursements tested. Twenty-five of sixty HOME Investment Partnership Program payroll disbursements tested.
	<i>Criteria</i>	OMB Circular A-133 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles.
	<i>Questioned Costs</i>	Due to the lack of payroll records to support the time actually worked in these programs, the questioned costs could not be determined.
	<i>Effect</i>	Noncompliance with OMB Circular A-133 and a possibility that unallowable costs could be charged to the grant.
	<i>Cause</i>	Management misinterpretation of compliance requirements.
	<i>Recommendation</i>	In order to comply with OMB Circular A-133 and strengthen internal controls, the City should ensure that employees time and effort is properly documented and reviewed by supervisory personnel.
	<i>Corrective Action Plan</i>	A Quality Control timekeeping process has been established since May 2011, which identifies the specific grants to be charged. This also includes daily supervisor approval of hours, three daily timekeeper approvals confirming that the timesheet and payroll system match, and a monthly Timesheet Summary. HUD has reviewed the new timecards which include personal days, bereavement, and military leave. Management and other City departments that charge to the grant programs keep timecards.
	<i>Contact Person</i>	Tammy Albright, Housing and Community Development Director

**CITY OF MESA, ARIZONA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 COMMUNITY DEVELOPMENT BLOCK GRANT, ARRA COMMUNITY DEVELOPMENT BLOCK GRANT -
 NEIGHBORHOOD STABILIZATION PROGRAM
 CFDA No.'s 14.218, 14.253**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 ARRA – HOMELESS PREVENTION AND RAPID RE-HOUSING PROGRAM
 CFDA No. 14.257**

**U.S. DEPARTMENT OF JUSTICE
 ARRA – PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS
 CFDA No. 16.710**

2011-10 *Condition* The City does not have a review process in place over quarterly financial and performance reports. Financial and performance reports were not always supported by accounting records.

Context Community Development Block Grant:
 Four of four ARRA 1512 reports tested and two of two quarterly performance reports did not have evidence of management review. One of one quarterly performance reports was not supported by accounting records.

ARRA Homeless Prevention and Rapid Re-Housing Program:
 Two of two ARRA and HMIS reports tested had no evidence of management review. Two of two quarterly reports tested were not supported by accounting records and did not have evidence of management review.

Public Safety Partnership and Community Policing Grant :
 Two of two ARRA 1512 reports, four of four Federal Financial SF-425 reports, two of two COPS Hiring Progress reports, and one of one COPS Non-Hiring Progress reports tested had no evidence of management review.

Criteria Internal controls over compliance.

Effect Possibility that reporting errors would go undetected.

Cause Managerial oversight.

Recommendation In order to strengthen internal controls over compliance with OMB Circular A-133, the City should ensure that reports are properly supported and are reviewed by an employee independent of its preparation.

Corrective Action Plan Since the new Management Team has been in place beginning February 2011, reports are reviewed by management prior to their completion. This new process requires supporting backup documentation for all reports as well as a manager to sign off on the report.

Contact Person Tammy Albright, Housing and Community Development Director

CITY OF MESA, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U.S. DEPARTMENT OF JUSTICE
ARRA – PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS
CFDA No. 16.710

2011-11	<i>Condition</i>	The City did not have a process in place for the review of the quarterly reimbursement requests and the documents to support the cash balance requested. In order to be in compliance with grant requirements, city personnel manually calculate the payroll costs charged to the grant. The reimbursement request is based on the manual calculation which is not reviewed by an employee independent of its preparation.
	<i>Context</i>	Two of two hiring reimbursement requests tested. One of one technology grant reimbursement request tested.
	<i>Criteria</i>	Internal controls over compliance.
	<i>Effect</i>	Possibility that errors could go undetected.
	<i>Cause</i>	Managerial oversight.
	<i>Recommendation</i>	In order to strengthen internal controls over compliance with OMB Circular A-133, the City should ensure that reports are reviewed by an employee independent of its preparation.
	<i>Corrective Action Plan</i>	A new Financial Services Specialist was hired in November 2011, to replace the position vacated in May 2011. The addition of this employee will assist with providing the necessary resources to implement the review process as recommended. Financial and performance reports, and reimbursement requests along with supporting documentation, will be independently reviewed prior to submission and documented with the reviewers initial's and date and filed in the grant file. This review procedure will be implemented in January 2012.
	<i>Contact Person</i>	Pamela Alexander, Police Budget Coordinator



**City of Mesa
Investment Portfolio Review**

**Audit, Finance and Enterprise Committee
February 27, 2012**



City of Mesa Investment Portfolio Review

- City of Mesa Investment Policy Objectives
 - Safety of principal
 - Sufficient liquidity to meet operating requirements
 - Maximize rate of return



City of Mesa Investment Portfolio Review

LGIP Portfolio Investment Mix – Pool 7

- Short term, usually **over-night, low risk investments**
- December earnings rate **0.04%** (net of 6 basis point fees)
- Fiscal year to date earnings \$56,432
- December 31, 2011, investment is \$132 million or 41% of total investment

PFM Portfolio Investment Mix

- US Treasury Notes, Federal Agency Bonds, low risk investments with maturity from **under 6 months, 6 – 12 months, 1 -2 years and 2 – 3 years.**
- Actively manage portfolio
- Reviewing purchase of High Quality Commercial Paper as part of the City’s portfolio
- December earnings rate **0.51%** (net of 6 basis point fees)
- Fiscal year to date earnings \$465,027 (net of 6 basis point fees)
- December 31, 2011, investment is \$181 million or 56% investment

LGIP Portfolio Investment Mix – Pool 700

- Medium term, Treasuries, FDIC paper, GNMA mortgages, low risk investments maturity from 1 to 4 years
- December earnings rate **1.00%** (net of 6 basis point fees)
- Fiscal year to date earnings \$63,874
- December 31, 2011, investment is \$10 million or 3% of total investment
- **Limited liquidity**, only 1 withdrawal per month and interest rate sensitive



City of Mesa Investment Portfolio Review

- **Cash Flow Operating Requirements**
 - Day to Day Requirements \$ 40,000,000
 - Coordinate with PFM on Debt Service Payment December & January
 - Determine Total Cash on Hand to Invest
- **Strategy**
 - Complete initial tranches with PFM
 - Monitor earnings on each portfolio to achieve investment objectives
 - Consider investing part of portfolio in high-quality corporate notes



**City of Mesa
Banking Services Update**

**Audit, Finance and Enterprise Committee
February 27, 2012**



City of Mesa Banking Services Update Banking Services Management

- Phase I
 - RFQ issued January 18, 2012, for Independent Banking Services Consultant
 - Bids received January 30, 2012
 - Completion of bid review, award, consultant contract negotiations approximately July 1, 2012
 - Discuss banking policies and procedures with key City staff
 - Evaluate and provide recommendations regarding the City's current use of banking services
- Phase II
 - Consultant to assist in the development of an RFP for banking services
 - Evaluation of proposals and select qualified banking institutions
 - Interview selected banking institutions
 - Recommendations
 - Contract/Agreement negotiations
 - Contract Review
 - Implementation scheduled for fiscal year beginning July 1, 2013. Post CityEdge.



City of Mesa Banking Services Update Banking Services Management

QUESTIONS ????????

INTEGRATED ENERGY RESOURCE PLANS

Energy Supply Contracts

City of Mesa

Energy Resources Department

2.27.12

ENERGY RESOURCES DEPARTMENT

- 15,400 electric customers & 53,000 gas customers.
- Our Goals & Objectives & are in strong alignment with the City’s Strategic Initiatives.

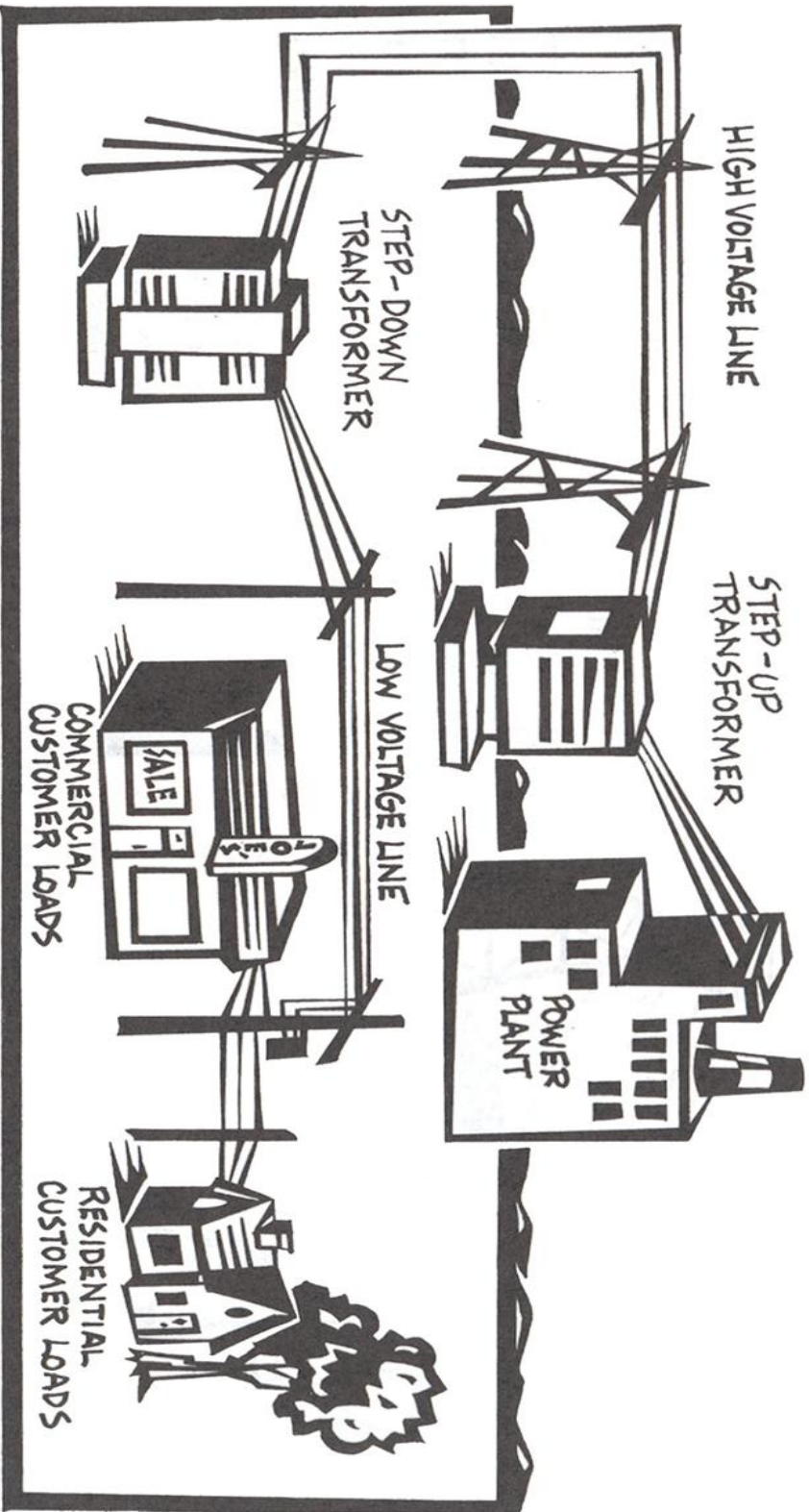
	Financial Stability	Quality of Life	Economic Development	Community Engagement	Regional Leadership
Safety	✓	✓	✓	✓	✓
Reliability	✓	✓	✓		✓
Efficiency	✓	✓	✓		✓

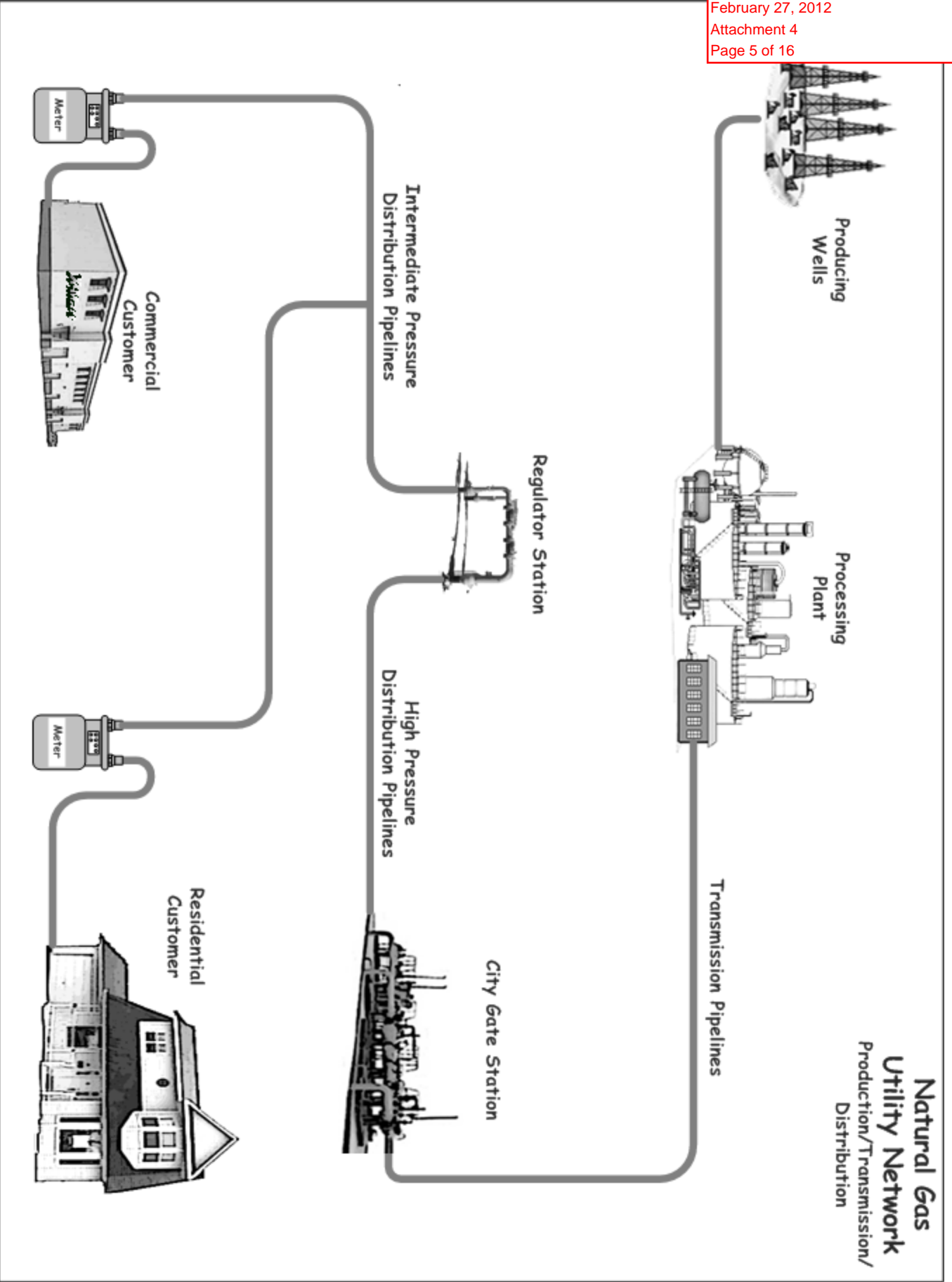
Integrated Resource Planning

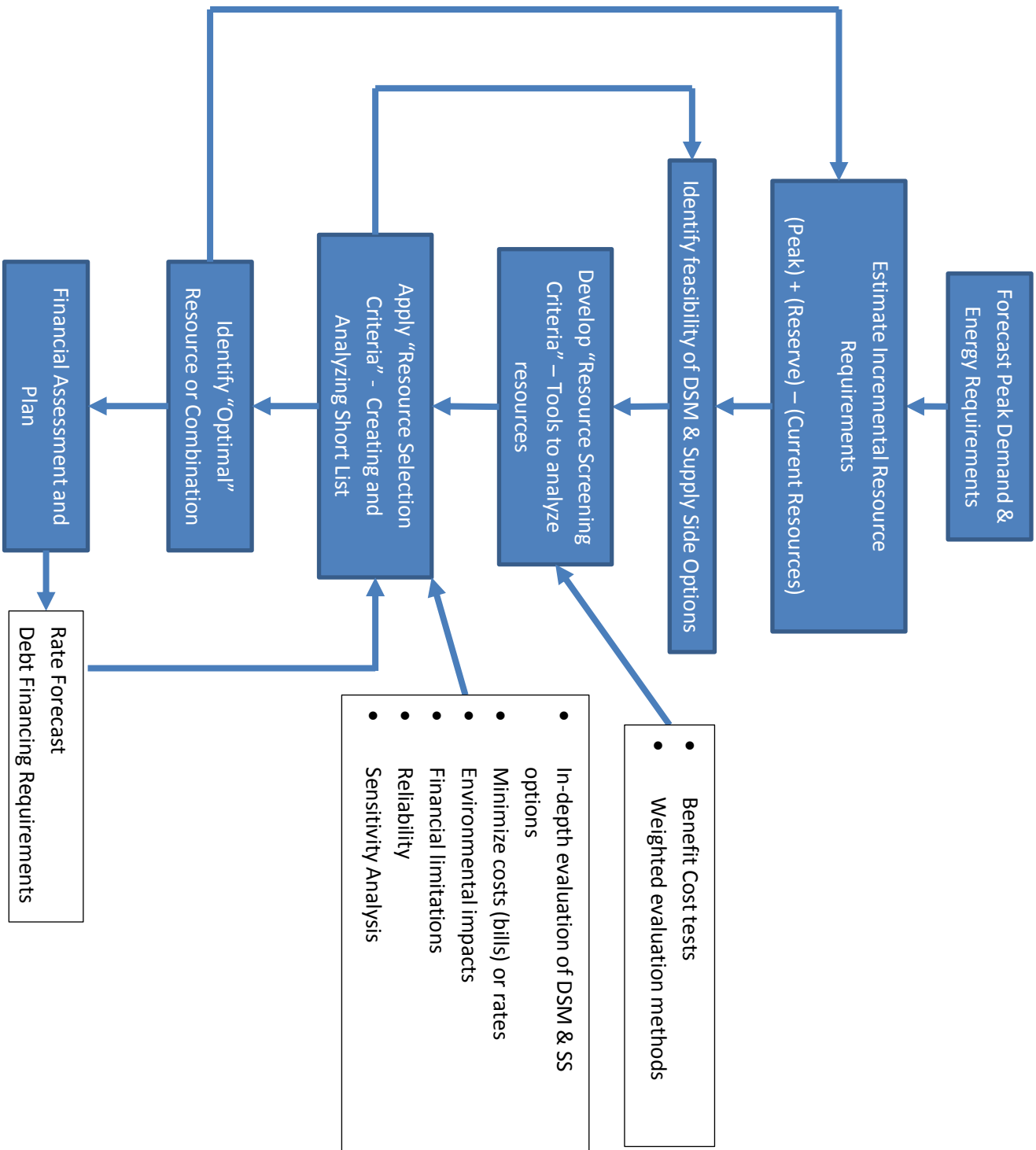
Decisions to meet customers' energy requirements

- Iterative & continuous process
 - Assess resource needs and options
 - Short-term & Long-term planning horizons
 - Impacts on customers & environment
 - Risks of uncertainty identified and managed
 - A robust, flexible & affordable plan w/ “Least Cost” mix of resources
- A “Best Practice”
 - Requirements of Federal Hydro Contracts

Electric Utility Network Generation/Transmission/Distribution







Electric Resource Portfolio & Plan

Decisions made decades ago define our current options, resource requirements & forecasts

- Western Area Power Administration (Western)
 - Resource Management Services
 - Integration with other recipients of federal hydro projects
 - Dispatch & scheduling of energy supply contracts
 - Balancing supplies with loads
 - Short-term purchases and sales

Current Electric Contracts

Western Area Power Administration/Parker-Davis Project

- 10.45 MW / March – September
- 8.0 MW / October – February
- Expires September 2028
- Western Area Power Administration/Colorado River Storage Project
 - 4.40 MW Capacity / April – September
 - 3.30 MW / October – March
 - Expires September 2024

Current Electric Contracts

Shell Energy North America

- 15 MW / January – December / 7x24
- Expires April 2012
- Shell Energy North America / SENA Agreement No. 1:
 - 1A: 10 MW / January-December / 7x24
 - Expires May 2013
 - 1B: 15 MW / May-August & 20 MW / September / 7x16
 - Expires September 2012.
 - 1C: 10 MW / July-August / 7x16
 - Expires August 2012
- Shell Energy North America / SENA Agreement No. 2:
 - 10 MW / June-October / 7 X 16
 - Expires October 2013

Current Gas Contracts

- Shell Energy North America (SENA)
 - Transportation & Scheduling Services on EPNG
 - Monthly renewals since expiration November 2011
 - Base Gas Supplies
 - San Juan Index - \$0.15 (floor of \$4.95)
 - Starting November, fixed price - \$3.29 / MMBTU
 - Through June 30, 2012
- National Fuels Marketing (National Fuels)
 - Supplemental supplies

Resource Options

Forecast customer & resource requirements

- Budget forecasts
- Public workshops

- Identify resource options

- iMesa
- 2011 RFP
- Short-term & Long-term market options

- Resource needs

- Renewables
- Replace expiring contracts
- Short-term contracts (less than 5 years)

Resource Selection

Public involvement

- Risk assessments
 - Uncertainty in Forecasts
 - Reliability
 - All supply options resources have potential of intermittency
- Financial impacts
 - Bond ratings
 - Unforeseen cost increases
- Council approval process

Resource Acquisitions

RFP responses

- Reflect high efficiency, natural gas fired technologies
- New = higher efficiencies
- Remotely located – minimal local emissions
- Modern emissions control technologies
- Short-term contracts
 - Very low current market prices for natural gas
 - Opportunity to offset increases in other costs
 - Possible reductions to customers' rates & bills
- Renewables

New Electric Resource Contracts

Replace Shell 15 MW / Jan – Dec / 7x24

- New Term of 3 to 5 years
- Price reduction of 23 %

- **Replace Part 1B**

- New Term of 3 years
- Price increase of 29 %

- **Replace Part 1C**

- New Term of 3 years
- Price increase of 29 %

New Gas Resource Contracts

SENA

- Transportation & Scheduling Services on EPNG
- March 2012 - February 2015
- \$ 1,000 per month (existing price)

- **SENA Base Fuel Supply**

- San Juan Index of -\$0.15 (floor of \$3.35)
- July 2012 thru December 2014
- Option for two, annual renewals

- **Supplemental Suppliers**

- Continue existing National Fuels
- New agreements with Chevron, Concord Energy and JP Morgan

QUESTIONS

COMMENTS

SUGGESTIONS

Solar & Energy Efficiency Pilot Programs

City of Mesa
Energy Resources Department
2.27.12

Integrated Resource Planning

Decisions on how to meet customers' energy requirements

- Iterative & continuous process
- Assess resource needs and options
- Short-term & Long-term planning horizons
 - Impacts on customers & environment
- Risks of uncertainty identified and managed
 - A robust, flexible & affordable plan
- “Least Cost” mix of resources
- A “Best Practice”
- Requirements of Federal Hydro Contracts

2011 ELECTRIC IRP ACTION PLAN

SOLAR

- Enhance current program
- City Utility owned facilities
- Energy Efficiency & Conservation
 - Supplement information available to customers to enhance their decisions
 - Energy Audits
 - Workshops
 - Website(s)
 - Strong evidence indicates that customers are conserving
 - Defer use of rebate type incentives

Current Solar Program

- Benefits of energy efficiency emphasized
- “Net Billing” employed
 - Variant of “Net Metering”
- Meter does not reverse
- Net Metering = reversal of meter

2012 Solar Proposal

IRP / Central Main Plan / i Mesa submission / Customers

12 Month Pilot

- Model after SRP
- Rebates & Net Metering
- Caps minimize negative financial effects
- Rebate funded via energy cost recovery factor (EECAF)

	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>
REBATE (\$ / kW)	\$ 1,000	\$ 1,000
MAX kW / \$ REBATE	5 kW / \$ 5,000	10 kW / \$ 10,000
ANNUAL BUDGET	\$ 50,000	\$ 50,000

2012 Energy Efficiency Proposal

- Legislative mandates & tax incentives since 2006
- “Energy Independence & Security Act of 2007”
 - Increased standards on certain light bulbs sizes
 - Water efficiency standards for appliances
 - Efficiency of electric motors
 - Efficiency in walk-in coolers and freezers
 - Commercial lighting restrictions
 - Min. requirements for residential air conditioners

2012 Energy Efficiency Proposal

- Strong evidence that there is a healthy & vibrant market for conservation & energy efficiency
- Expand education efforts
 - Provide technical and economic information
- Energy Audits
 - Il Vanio & Mesa Presbyterian Church
 - Joint w/ Development & Sustainability
 - Retention & Expansion tool

Next Steps

- City Council approval of IRP
 - Required by Federal Hydro contracts
- Implementation
 - Recent inquiries
- Continuous evaluation of Pilot Programs

QUESTIONS

COMMENTS

SUGGESTIONS