



## AUDIT, FINANCE & ENTERPRISE COMMITTEE

July 1, 2013

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 July 1, 2013, at 3:31 p.m.

### COMMITTEE PRESENT

Alex Finter, Chairman  
Dina Higgins  
Scott Somers

### COMMITTEE ABSENT

Christopher Brady, Ex Officio

### STAFF PRESENT

Debbie Spinner  
Alex Deshuk

#### 1. Items from citizens present.

There were no items from citizens present.

#### 2-a. Hear a presentation and discuss the Business Services Identity Theft Prevention Program Annual Report.

Business Services Department Director Ed Quedens introduced Customer Information System (CIS) Administrator Priscilla Bertling, who was prepared to address the Committee.

Mr. Quedens reported that in May 2009, the Council approved the City of Mesa's Identity Theft Prevention (ITP) Program in compliance with the Federal Trade Commission (FTC). He explained that it was determined that the City, as a utility provider and creditor, was required to comply with the Fair and Accurate Credit Transaction Act (FACTA) of 2003. He also noted that FACTA requires that staff prepare an annual report and make a presentation to the governing body which, in this case, is the Audit, Finance & Enterprise Committee.

Ms. Bertling advised that the key elements of the ITP Program include detecting, preventing and mitigating identity theft situations. She said that the City's Customer Service staff is trained to watch for 20 different "red flags" or risks to detect potential issues with a customer's account. She cited, by way of example, items such as credit reports, fraud alerts, and documents that appear altered or forged. She added that each "red flag" has a response action to prevent and mitigate identity theft.

Ms. Bertling further commented that during the period between May 2012 and May 2013, four incidents related to possible identity theft were documented. **(See Attachment 1)** She offered a brief overview of the various incidents. (See Pages 2 and 3 of Attachment 1)

Ms. Bertling remarked that the ITP Program also identified an employee who was not consistently following one of the steps to help prevent identity theft, which is using a third-party provider to validate the identity of customers establishing new accounts. She stated that the employee was counseled and the issue was resolved. She added that as a result of the incident, all of the Call Center supervisors conducted a refresher course for their staff with respect to this particular policy.

Ms. Bertling, in addition, reported that the Business Services Department also implemented a process with its billing system to automatically remove utility customers' inactive and expired credit card information. She noted that this was done as an additional precaution to ensure that such materials "did not get out of our hands."

Mr. Quedens stated that staff developed a new report in an effort to audit the Customer Service Representatives' use of the identification verification program as compared to the Credit Bureau report.

Responding to a question from Chairman Finter, Mr. Quedens clarified that on a monthly basis, the Business Services Department receives approximately 24,000 phone calls and assists an additional 15,000 walk-in customers.

Chairman Finter commented that the small list of incidents or events, as highlighted by Ms. Bertling, "reflects positively" on the efforts and hard work of the Business Services Department staff. He stated that he recently received feedback from a citizen who had called the Customer Service Department concerning a utility matter and was treated in a prompt and courteous manner.

In response to a question from Committeemember Somers, Mr. Quedens advised that he has not been made aware of any attempts by individuals to "hack" into the City's billing system.

Discussion ensued relative to the fact that the City of Mesa has joined a federal network of entities that provide security information; that on occasion, such entities have proactively warned the City regarding attempts to hack into the system; that on a daily basis, the City of Mesa, like many other large communities, experiences numerous "malicious attempts" by individuals in China and Russia, for example, to hack into its web portal; and that to date, such attempts to access the system have been unsuccessful.

Chairman Finter thanked staff for the presentation.

2-b. Hear a presentation, discuss and make a recommendation on an ordinance amending the Mesa Tax Code to conform with changes made to the Model City Tax Code.

Business Services Department Director Ed Quedens introduced Tax Administrator Mickey Tait, who was prepared to address the Committee.

Ms. Tait reported that the purpose of today's presentation was to highlight various changes to the Model City Tax Code (MCTC), which the Municipal Tax Code Commission approved earlier this year and became effective today. She stated that it was the recommendation of staff that the Council adopt an ordinance that would amend the Mesa Tax Code (MTC) in order to conform to these changes mandated by the State Legislature. She added that in 1987, all Arizona cities, including Mesa, adopted the MCTC.

Ms. Tait spoke regarding Governor Jan Brewer's Transaction Privilege Tax (TPT) Simplification Task Force and the burden that is being placed on businesses due to differences between State and local tax classifications. She explained that the Arizona League of Cities and Towns' Unified Audit Committee considered various State exemptions that the cities could also adopt that would result in minimal to no impact on the communities' revenues. She stated that in the future, the remaining differences will be evaluated and compromise language developed. She cited, by way of example, that with respect to the Retail classification, the State Legislature has passed 85 different tax exemptions, not all of which have been adopted at the local level.

Ms. Tait displayed the July 1, 2013 Audit, Finance and Enterprise Committee Report (**See Attachment 2**) and provided a short synopsis of the proposed changes to the MCTC and the potential fiscal impact to the City of Mesa. (See Pages 2 through 4 of Attachment 2)

Responding to comments from Chairman Finter, Assistant to the City Manager Scott Butler clarified that the proposed changes are intended to "clean up" the MTC to reflect legislative changes that have occurred throughout the years and also to "bring it in line" with the State Statute and the MCTC. He pointed out that the pending implementation of the TPT reform is a separate action and will be a longer-term process. He added that such efforts will require significant coordination between the State, cities and the Arizona League of Cities and Towns.

Ms. Tait continued with the presentation and stated that "the big ticket item" relates to an exemption created by the State Legislature for real property leases between affiliated entities when there is a controlling interest. She explained that the State previously mandated an exemption for real property leases between affiliated corporations and noted that the exemption has been expanded to include all business entities (i.e., individual partnerships or limited liability corporations) as long as there is an affiliated ownership. She noted that such exemption will reduce City of Mesa tax revenues by approximately \$1.3 million annually, based upon a review of all tax licenses that appear to have an affiliated relationship with the occupant of the real property.

Ms. Tait further remarked that the result of such legislation would be that "arm's-length transactions" (i.e., rent paid by a business to a non-affiliated landlord) would remain taxable. She noted, however, that business owners will no longer be liable for sales taxes on rent that they pay to themselves.

Chairman Finter asked that Ms. Tait provide an illustration with respect to how this exemption would impact a business.

Ms. Tait responded that previously, a dentist, for example, would create a professional corporation out of which to operate his or her dental practice. She explained that this was for the purpose of limiting liability against the business. She stated that the dentist might also purchase the building in which the person's office is located and keep the property in his or her name, place it in a trust, or perhaps create another limited liability corporation. She noted that if the dentist was ever sued for malpractice, the property would be safe from litigation.

Ms. Tait further commented that the dentist would also make transactions similar to an "arm's-length transaction," wherein the person would charge the business rent or, perhaps, in lieu of rent, the business would pay all of the operating costs associated with the property. She indicated that such a scenario was considered a benefit to the dentist, who was still liable for the sales tax on the rent that the business paid.

Responding to a question from Committeewoman Higgins, Ms. Tait clarified that an "arm's-length transaction" would be if she owned a building and rented space to a dentist who merely wanted to use that location for that individual's practice. She clarified that she would not own any part of the business and would have no relationship to the person. She reiterated that in that scenario, the City will still tax rents paid by a business to a non-affiliated landlord.

Chairman Finter commented that he was aware of many businesses that operate under a limited liability corporation in order to ensure that the corporate veil is not pierced and their property is protected. He stated that the new law will probably bring "cheers throughout the business community."

Ms. Tait also pointed out that as part of the legislation, the bill was also added to the State Statutes. She explained that even though the current Commercial Lease rate for the State is zero percent, the counties impose their own percentages, with Maricopa County's being one-half of a percent. She added that the counties and the State will also adopt the same language.

Mr. Quedens remarked that the \$1.3 million has been factored into the FY 2013/14 budget.

Ms. Tait briefly highlighted the changes related to Wastewater removal services (See Page 5 of Attachment 2), which was never part of the MCTC. She explained that Phoenix, Mesa and Scottsdale added it as an ordinance and noted that it is called a "green page" item since it is a tax. She explained that cities could have individual items in their tax codes that may not be in the MCTC through a "green page" item.

Ms. Tait further remarked that in an effort to address the difficulty that businesses are confronted with in dealing with different tax codes in various communities, this tax was added to the MCTC so that any city has the option to adopt it. She added that the proposed changes are adopting the final uniform language so that those items can be removed from the City of Mesa's "green page" on the MCTC.

Responding to a question from Committeewoman Higgins, Ms. Tait pointed out that currently, the City taxes wastewater services as part of the utility bill, but does not tax County island residents who use such services. She explained that the language is being altered to include

any services that the City of Mesa provides, no matter who the resident is. She added that the City was not prohibited from taxing County residents for wastewater services, but clarified that the law was not written in that manner. She added that the proposed change will result in an estimated increase to the City's tax revenues by \$15,000 annually based upon the taxability of County island consumers who use City wastewater services.

Mr. Butler pointed out that one of the commitments that cities have made to the Arizona Tax Research Association (ATRA) is to do whatever they can to move away from "city specific portions of the MCTC." He remarked that developing uniform language is "a positive step" in helping the business community that operates in multiple jurisdictions to have some certainty with respect to the manner in which wastewater would be taxed.

Chairman Finter acknowledged Mayor Smith for his efforts and leadership in working with the Governor's Office and other parties with respect to the TPT reform bill.

Mr. Butler noted that the TPT reform bill ended up being "a true compromise" and was very different from the original bill introduced by the Governor, which included new home construction and other items that would have had a detrimental fiscal impact on Mesa. He noted that the legislation will still have a negative fiscal impact on the City, but pointed out that it was "rooted in public policy that will truly help the business community and not just serve as a tax break to certain industries."

Chairman Finter stated that it was the consensus of the Committee that staff move this item forward to the full Council.

Chairman Finter thanked everyone for the presentation.

2-c. Hear a presentation, discuss and make a recommendation on the proposed Audit Plan for FY 2013/14.

City Auditor Jennifer Ruttman stated that the audits for the FY 2013/2014 Annual Audit Plan are selected based on requests from the Council and City Manager, as well as input that her office solicits from Department Directors and other Managers throughout the City.

Mr. Ruttman reviewed the FY 2013/2014 Audit Plan (**See Attachment 3**), which includes the following:

- Scheduled Audits for 2013/2014 (See Page 1 of Attachment 3)

Chairman Finter commented that he has received significant feedback from businesses and citizens regarding the Advantage Enterprise Resource Planning (ERP) system and stated that in his opinion, this audit was very important.

Ms. Ruttman assured Chairman Finter that the ERP System Implementation audit was considered a priority item and would commence shortly.

Ms. Ruttman also highlighted the following items: Ongoing Audits and Follow-up Reviews from the 2012/2013 Audit Plan; Follow-up Reviews Scheduled in 2013/14; and Other Activities. (See Page 2 of Attachment 3)

In response to comments from Chairman Finter, Ms. Ruttman clarified that employees and contractors can access the City of Mesa's Fraud and Ethics Hotline via fax, e-mail, online or by phone. She explained that an independent agency in Georgia receives the information, which is then forwarded to the City Auditor's Office via e-mail. She noted that the identity of the person who made the report remains anonymous, unless the individual agrees to provide such data to staff.

Committeemember Somers stated that the Regional Public Transportation Authority (RPTA) will be conducting its own audit with an external auditor regarding a number of bus issues. He noted that the City has "had an issue" with the RPTA in significantly underestimating the cost of Valley Dial-a-Ride services by approximately \$800,000. He commented that if he has concerns with the RPTA's audit, he may ask that the City Auditor's Office provide "another independent eye" in that regard.

Chairman Finter stated that it was the consensus of the Committee, that the Audit Plan for Fiscal Year 2013/2014 be forwarded on to the full Council.

Chairman Finter thanked Ms. Ruttman for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 4:18 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 1<sup>st</sup> day of July, 2013. 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

## **IDENTITY THEFT PREVENTION PROGRAM INCIDENT REPORT**

The purpose of this report is to promote continued evaluation of effectiveness of current policies and procedures in compliance with the Fair and Accurate Credit Transaction Act. This document will be used to drive recommendations for changes to the program due to evolving risk and methods of theft.

There have been no formal Notice of Identity Theft reports submitted to the Program Coordinator or the Privacy Officer from May 2012 to May 2013. However, a list of possible Red Flag incidents, have been documented.

Date: May 31, 2013

Prepared by: Priscilla Bertling FACTA Privacy Officer  
(Employee designated to track and record information)

Committee Members: Priscilla Bertling (Privacy Officer)

Teresa Simpson (Program Coordinator)

Ed Quedens

Tim Meyer

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## IDENTITY THEFT PREVENTION PROGRAM INCIDENT REPORT

Date	Scope	Employee	Employee Trained	Describe Incident or "Significant Event"	Management Response	Mitigation
9/27/12		PGS/CNB	Yes	Account: 726850-207213 Caller stated that this account is showing up on his credit report as a bad debt and he has never had service with COM. After verifying identity of caller and account information, advised caller of the authorized party on account. Caller stated the authorized party was his son and he believes that he son stole his identity and also his credit cards.	Advised customer to file police report, FTC report and to also contact the credit bureau.	No further action taken by COM. No reports were ever provided to COM regarding identity theft.
8/20/12 & 9/27/12		LMC	Yes	Account: 913512-240695 Account established with SSN that did not belong to the customer of record. Original Equifax PosID returned results: No record found. Customer called 1 month later to report that she used her daughter's SSN to set up her account and wanted to change it to her own.	Advised customer must come in to Business Office with proper ID and Social Security Card. Customer provided proper identification documents in office. Equifax PosID was able to verify customer's name/SSN. Customer's account was updated with the correct SSN.	Program Coordinator notified the employee's supervisor. Supervisor reviewed this situation with the employee and also reviewed the procedures for positively identifying customer information prior to account creation.
10/1/12		N/A	N/A	When establishing an account for a new customer (915871-165131), another account listing their SSN was identified under a different name. Account (647660-104822).	Since the new customer had already been verified through PosID in Equifax, the SSN was removed from the previous customer's account.	The Program Coordinator sent a letter to the original customer that had the incorrect SSN listed on their account instructing them to contact us with proper identification documentation. This



						customer visited the Business Office with proper ID and the account was updated.
10/31/12		CLN	Yes	Account 915710-160953 An employee of Chase Bank called regarding \$335 payment made to their customer's credit card ending in 6783. We were notified by the bank employee that they believe this was an unauthorized charge.	Research found payment applied to an account with a different name.	Informed caller that payment was to establish deposit for residential utility services with COM. If cardholder does not recognize transaction, they should dispute the charge.
01/2013		YAA	Yes	During call monitoring, a representative was observed establishing a new account without performing the required PosID through Equifax.	The specific employee was counseled on the correct account establishment procedures and it was noted in their annual review.  Management identified that this was an indication that all staff needs to be reminded of the importance of this step and they determined a report should be developed to audit compliance.	All Call Center supervisors refreshed their staff on the policy and this item was highlighted.  Monthly review of the Credit Bureau reports has been initiated to aid in early detection of this type of situation. A report request has also been submitted to the CIS group for a monthly report listing of all newly created account numbers with corresponding staff member ID who created the account. This report will help to reconcile the Credit Bureau reports more accurately.

**IDENTITY THEFT PREVENTION PROGRAM INCIDENT REPORT**

**Describe current strengths of Utility Identity Theft Program.**

September, 2012: Red Flags policy updated to include annual distribution and employee acknowledgement.

February 2013: a processes was implemented to automatically remove all inactive and expired credit card numbers in CIS.

**Describe areas for Improvement.**

A new report was developed to better reconcile Positive Id's run by staff vs new accounts opened.

<b>Goal for Improvement</b>	<b>Steps Needed</b>	<b>Person(s) Responsible</b>	<b>Date</b>
Develop more thorough reconciliation process for Credit Bureau reports	--Obtain/create monthly report of new accounts established in CIS	--Priscilla Bertling	9/1/13
	--Monthly reconciliation of CIS report against Credit Bureau report	--Call Center Supervisor(s)	Ongoing



## Audit, Finance and Enterprise Committee Report

**Date:** July 1, 2013  
**To:** Audit, Finance and Enterprise Committee  
**Through:** Alex Deshuk, Manager of Technology and Innovation  
**From:** Ed Quedens, Business Services Director  
Mickey Tait, Tax Administrator  
**Subject:** Amendments to the Mesa Tax Code  
"Citywide"

**Strategic  
Initiatives**



### **Purpose and Recommendation**

The purpose of this report is to recommend Council adoption of an ordinance (Exhibit A) amending the Mesa Tax Code (MTC). This ordinance would result in the adoption of changes made to the Model City Tax Code (MCTC) by the Municipal Tax Code Commission. All cities in the State are adopting these changes.

#### **1. TPT Task Force: Retail and Use tax changes (Ordinance Section 1):**

##### **Background**

One of the notable recommendations of the Governor's TPT Simplification Task Force was that the State and local Retail classifications need to be uniform to promote compliance with the tax laws, relieve the administrative burden of local business, and in the future comply with the Marketplace Fairness Act, if or when it is passed by the federal government. The additional exemptions noted below are the initial steps to bring the MCTC and the Arizona Revised Statute (A.R.S.) into conformity. To maintain balance between Transaction Privilege Tax (TPT) and Use Tax, all of the changes proposed for Retail exemptions in Section 5-10-465 are mirrored by making the same changes under the Use Tax exemptions in Section 5-10-660. In the future, additional changes are anticipated as the remaining differences are evaluated and compromise language is developed.

**A. Amend Section 5-10-200(D): Effective July 1, 2013.**

This change creates uniformity with A.R.S. for determining the gross income subject to tax from the sale of nuclear fuels. This exemption matches the State statutory language of A.R.S. § 42-5002.B.

**Fiscal Impact:** No impact to Mesa tax revenues. Mesa does not have a nuclear fuel facility located in Mesa.

**B. Amend Subsections 5-10-465(X) & 5-10-660(X): Effective July 1, 2013**

Add an exemption for sales of food to a restaurant used for free employee meals. This exemption matches the State statutory language of A.R.S. § 42-5061.A.18.

**Fiscal Impact:** This action to standardize the MCTC and A.R.S. will have a decrease to city tax revenues of approximately (\$10,000.00) annually.



**C. Amend Subsections 5-10-465(GG) & 660(GG): Effective July 1, 2013**

This subsection currently exempts sales of food for consumption on the premises of any public educational entity pursuant to any provision of A.R.S. Article 15. Language is being added to clarify that this exemption includes private, parochial, and charter schools pursuant to A.R.S. § 15-802, to match the wording in A.R.S. § 42-5102(C)(1).

**Fiscal Impact:** No impact to Mesa tax revenues for the proposed expansion of this tax exemption as the MTC was administered in the same manner for all educational entities subject to the provisions of A.R.S. Article 15. This expanded language clarifies that in addition to public schools; an educational entity includes private, parochial, and charter schools.

**D. New Subsections 5-10-465(NN) & 5-10-660(NN): Effective July 1, 2013**

Add an exemption for magazines and other publications by the State to encourage tourism. This exemption matches the State statutory language of A.R.S. § 42-5061.A.26.

**Fiscal Impact:** Minimal if no impact to Mesa tax revenues. Upon review of companies that sell publications to encourage tourism, it was identified that most were non-profit organizations and are already exempt from local transaction privilege tax pursuant to MTC Section 5-10-270(C).

**E. New Subsections 5-10-465(OO) & 5-10-660(OO): Effective July 1, 2013**

Add an exemption for paper machine clothing sold to a paper manufacturer. This exemption matches the State statutory language of A.R.S. § 42-5061.A.37.

**Fiscal Impact:** No impact to Mesa tax revenues. A paper manufacturer's purchase of machinery and equipment including expendable parts and accessories, such as paper machine clothing used to prevent fine paper particles from escaping into the environment, are already exempt from local tax pursuant to MTC Section 5-10-110(A)1 and 5-10-110(A)20.

**F. New Subsections 5-10-465(PP) & 5-10-660(PP): Effective July 1, 2013**

Add an exemption for overhead materials used in performing a Federal government contract when the contract contains a title passage clause. This exemption matches the State statutory language of A.R.S. § 42-5061.J.3.

**Fiscal Impact:** No impact to Mesa tax revenues. If the contract includes a title passage clause to the federal government, the sale of overhead materials is already exempt from local tax as a sale for resale pursuant to MTC Section 5-10-465(A).

**G. New Subsections 5-10-465(QQ) & 5-10-660(QQ): Effective July 1, 2013**

Add an exemption for coal, petroleum, coke, natural gas, virgin fuel oil, and electricity sold to an environmental technology manufacturer, producer, or processor. (Limited to twenty years after the first paper manufacturing equipment or other environmental technology equipment is put into service). This exemption matches the State statutory language of A.R.S. § 42-5061.A.38.

**Fiscal Impact:** Unknown or minimal impact to Mesa tax revenues. It is not known if there will be a future environmental facility in Mesa or if a future facility would qualify for the tax exemption.

**H. New Subsections 5-10-465(RR) & 5-10-660(RR): Effective July 1, 2013**

Add an exemption for machinery, equipment, materials, and other tangible personal property used to construct a qualified environmental technology manufacturing facility. (Limited to ten years after the initial start of construction) This exemption matches the State statutory language of A.R.S. § 42-5061.D.

**Fiscal Impact:** Unknown or minimal impact to Mesa tax revenues. It is not known if there will be a future environmental facility in Mesa or if a future facility would qualify for the tax exemption.

**2. Solar Energy Exemptions: Retroactive to January 1, 2007 (Ordinance Section 2):**

This incorporates the statutory language of Senate Bill 1229 from the 2012 legislative session, which provided an exemption for excess electrical energy sold back to a Utility distributor when the energy is generated by a consumer's solar energy equipment. This situation is commonly referred to as the electric meter "spinning backward", because the Utility gives the consumer credit for any excess energy returned to the grid against the full amount of energy actually drawn by the consumer. It also includes a Retail and Use tax exemption for sales of "Renewable Energy Credits" or RECs, along with an exemption for REC sales under the Utilities classification. These changes cover several sections in the Model City Tax Code, with a retroactive effective date of January 1, 2007 to coincide with the State legislation. Note that this effective date was established in statute to coincide with the effective date of the Corporation Commission's solar energy requirements, which are a significant factor in the promotion of solar energy expansion.

**A. Amend Section 5-10-100, General definitions "Business":**

Exclude the sale of electricity generated by consumer equipment from the definition of "Business". Adding this exclusion from the definition of "business" means that consumers that make such sales back to the utility company are not deemed to be in

the business activity of providing Utilities, and are thus are not required to have a Transaction Privilege Tax License.

**B. New Subsections 5-10-465(MM) & 5-10-660(MM), Retail sales: exemptions:**

Add an exemption from the Retail and Use tax classifications for sales of “Renewable Energy Credits” (RECs). This exemption matches the statutory language of A.R.S. § 42-5061.A.58 and A.R.S. § 42-5159.A.53.

**C. New Subsection 5-10-480(I), Utility services:**

Add a specific exemption from the Utilities classification for sales of excess energy produced by a consumer’s photovoltaic system to a utility distributor, along with language that removes the sale of RECs from the Utilities classification. This provides the exemption under the Utilities classification to clarify that when the meter spins backward, the taxable measure is the net charge to the consumer, and that REC sales are not part of the gross receipts under the Utilities tax classification. This exemption matches the statutory language of A.R.S. § 42-5063.B.5.

**Fiscal Impact:** No impact to Mesa tax revenues for all exemptions proposed. A sale of excess energy sold back to a utility company is already exempt from local tax as a sale for resale pursuant to MTC Section 5-10-480(C). This exemption clarifies that a consumer who makes such sales or receives credit for excess energy produced is not required to obtain a transaction privilege tax license.

**3. Amend Section 5-10-100, General Definitions “Prosthetics”: Retroactive to October 1, 2007 (Ordinance Section 3):**

House Bill 2259 from the 2013 legislative session adds an exemption for orthodontic braces sold by a dental professional to a patient in their care. The definition for “Prosthetics” has been expanded to include orthodontic devices thereby exempting the sale of braces or other orthodontic devices from tax. This exemption was approved with a retroactive effective date of October 1, 2007. Any potential refund claims must be filed by December 31, 2013; are limited to \$10,000 in total for all taxing jurisdictions; and cannot be paid prior to the filing deadline to allow for equitable allocation of the total refund pool among all claimants. This exemption matches the statutory language of A.R.S. § 42-5061.A.59 and the municipal tax preemption in A.R.S. § 42-6004.A.8.

**Fiscal Impact:** This Arizona State Legislative action to exempt braces and other orthodontic devices will have minimal if no impact to city tax revenues as it was found that most dental professionals remit taxes on the purchase of the orthodontic devices directly to the supplier and therefore themselves remits minimal taxes directly to the city.

**4. Amend Section 5-10-445(S), Rental of real property: Effective July 1, 2013 (Ordinance Section 4):**

House Bill 2324 added an exemption for real property leases between affiliated entities when there is a controlling interest. Controlling interest means an 80% ownership of the voting shares of a corporation or of the interests in a company, business, or person other than a corporation. This exemption matches the statutory language of A.R.S. § 42-5069.C.5 and the municipal tax preemption in A.R.S. § 42-6004.A.11.

**Fiscal Impact:** This legislative adoption by the State will reduce city tax revenues by approximately \$1,300,000.00 annually based upon a review of all tax licenses that appear to have an affiliated relationship with the occupant of the real property.



**5. Amend Section 5-10-485, Wastewater removal services: Effective July 1, 2013 (Ordinance Section 5):**

This change will conform the MTC Section 5-10-485, Wastewater removal services, to the MCTC language standardizing all cities and eliminates existing “Green Sheet” pages of Phoenix, Mesa, and Scottsdale.

**Fiscal Impact:** This Municipal Tax Code Commission action to standardize the wastewater removal services language for all cities will have a minimal increase to city tax revenues by approximately \$15,000.00 annually based upon the taxability of county island consumers who use services provided by an in-city provider.



**Fiscal Impact**

The combined fiscal impact for all changes adopted by the Municipal Tax Code Commission or preempted by Arizona State Legislature will result in an overall reduction to City tax revenues of approximately \$1,295,000.00.

**Alternatives**

The Municipal Tax Code Commission has approved all of the above amendments as shown in the attached Ordinance (Exhibit A). A.R.S. § 42-6053 requires that all Arizona cities and towns must adopt changes approved by the Commission.

**Our Mission:** *The City Auditor’s office provides audit, consulting, and investigative services to identify and minimize risks, maximize efficiencies, improve internal controls and strengthen accountability to Mesa’s citizens.*

**Scheduled Audits for 2013/2014**

<b>Audit Subject</b>	<b>Initial Objectives</b>
City Attorney – Property & Public Liability Trust Fund	<ul style="list-style-type: none"> <li>• Determine whether internal controls are in place and operating effectively to minimize the risks associated with the administration of the Property &amp; Public Liability (PPL) Trust Fund.</li> <li>• Evaluate application security &amp; processing controls associated with the Risk Master system (used to administer the PPL Trust Fund) and its interface to the City’s financial system.</li> </ul>
City Manager – Public Defender Contracts	<ul style="list-style-type: none"> <li>• Evaluate internal controls related to the administration of public defender contracts.</li> </ul>
Citywide – Disposal of Surplus Property	<ul style="list-style-type: none"> <li>• Determine whether City surplus property is managed and disposed of in accordance with applicable policies, procedures, and regulations.</li> <li>• Determine whether adequate internal controls are in place and operating effectively to minimize the risks associated with the various disposal methods and processes.</li> </ul>
ERP System Implementation	<ul style="list-style-type: none"> <li>• Review financial processes associated with the Advantage Enterprise Resource Planning (ERP) system to determine whether:               <ul style="list-style-type: none"> <li>○ Adequate internal controls are in place.</li> <li>○ Previously identified post-implementation issues have been appropriately addressed.</li> <li>○ The system substantially meets the requirements set forth in the vendor’s response to the City’s Request for Proposal.</li> </ul> </li> </ul> <p><i>Note: Due to its large scope and broad objectives, this audit may be conducted in more than one phase.</i></p>
Financial Services – Payroll	<ul style="list-style-type: none"> <li>• Determine whether internal controls related to timekeeping, payroll processing, and payroll accounting are adequate to provide reasonable assurance that employees are paid accurately and in accordance with all applicable City policies, State statutes, and Federal laws.</li> <li>• Determine whether findings from our last Payroll audit have been effectively addressed.</li> </ul>
Financial Services/Engineering/Transit – Light Rail Project Cost Recovery	<ul style="list-style-type: none"> <li>• Determine whether all reimbursable light rail project costs are being captured and recovered in accordance with applicable agreements.</li> </ul>
Library – Technology	<ul style="list-style-type: none"> <li>• Determine whether internal controls related to the use of technology (i.e. e-readers, public computers, automated processes, etc.) are in place and operating effectively to minimize the associated risks.</li> </ul>
MFMD – Fire Prevention	<ul style="list-style-type: none"> <li>• Evaluate internal controls related to services, fees, &amp; charges administered by the Fire Prevention Division of MFMD.</li> </ul>
Police – Off-Duty Employment Program	<ul style="list-style-type: none"> <li>• Evaluate internal controls related to off-duty employment of police officers.</li> </ul>
PRCF – Aquatics	<ul style="list-style-type: none"> <li>• Determine whether internal controls are in place and operating effectively to ensure aquatics revenues are safeguarded from loss.</li> <li>• Evaluate administrative processes associated with aquatics programs to ensure adequate controls are in place.</li> </ul>



**On-Going Audits and Follow-Up Reviews from 2012/2013 Audit Plan**

<b>Audit Subject</b>
Animal Control
Real Estate Leases
Fire Emergency Management (Follow-up)
Citywide Use of Temp Labor & Personal Services Contracts (Follow-up)

**Follow-Up Reviews Scheduled in 2013/2014:**

<b>Audit Subject</b>	<b>Initial Objectives</b>
Citywide Cash Counts	The objective of each follow-up review is to verify that corrective action(s) agreed to in response to the audit have been implemented as agreed and were effective in resolving the related audit finding(s).
Code Compliance	
Wildland Task Force Reimbursements	
AZ Museum of Natural History	
Cemetery	
Downtown Mesa Association (DMA) Contracts	

**Other Activities:**

<b>Activity</b>	<b>Description</b>
Assistance to Other City Departments	Provide assistance upon request, such as internal control reviews, risk analysis, financial statement reviews, data analysis, etc.
Fraud & Ethics Hotline Investigations	Monitor the Fraud and Ethics Hotline and perform investigations as needed.
Payment Card Industry Data Security Standards (PCI DSS) Reviews	Review credit card acceptance sites for compliance with PCI DSS.
Special Consulting Requests	Provide independent data collection, validation, and/or analyses upon request for Councilmembers, the City Manager, or Department Directors.

**Approved By:**

\_\_\_\_\_  
 Jennifer Ruttman, City Auditor Date

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 Christopher Brady, City Manager Date

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 Alex Finter, Audit, Finance & Enterprise Committee Chair Date

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 Scott Smith, Mayor Date