



AUDIT, FINANCE & ENTERPRISE COMMITTEE

June 16, 2011

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 June 16, 2011 at 9:48 a.m.

COMMITTEE PRESENT

Alex Finter, Chairperson
Dina Higgins
Scott Somers
Christopher Brady, Ex Officio

COMMITTEE ABSENT

None

STAFF PRESENT

Patricia Sorensen
Debbie Spinner

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation, discuss and provide direction on the following audits:

1. Electronic Monitoring Program
2. Follow-up Review of Custodial Services Contracts
3. Procurement Card Program

Electronic Monitoring Program

City Auditor Jennifer Ruttman advised the Committee that an audit was conducted to verify the cost savings resulting from the use of Electronic Monitoring (EM) in the Municipal Court. **(See Attachment 1)**

Responding to a series of question from Chairman Finter, Deputy Court Administrator Albert Lemke explained that the Electronic Monitoring Program is a pretrial release program designed to save on the costs of transporting and housing a defendant in the Maricopa County Jail. He said EM can also be used post-adjudication or for a D.U.I offense. He said that EM is an added tool for Judges to use in lieu of bond. He added that he is unaware of any additional cost saving changes that could be made at the Municipal Court at this time.

Acting Assistant to the City Manager John Pombier commented that Electronic Monitoring pre-conviction puts judges in the difficult position of balancing the safety of the community with the cost saving ability of the program. He said judges must be careful when deciding which individuals will be

placed on Electronic Monitoring. He stated that generally judges will err on the side of caution for the safety of the community, as opposed to potential cost savings.

Responding to a question from Committeemember Somers, Mr. Pombier explained that judges are required to set bond for all defendants and EM is a discretionary tool that can be used by the Court. He said instead of requiring the defendant to post bond the judge can allow the defendant back into the community under the assumption that the defendant will appear for the next hearing.

Responding to a question from Chairman Finter, Mr. Lemke explained that the EM Program is in full operation and no longer a pilot program. He noted that there have not been any adverse situations related to the EM program.

Chairman Finter expressed his appreciation for the efforts made by the judges and staff in administering the EM program.

Committeemember Somers remarked that overall the program has been successful in maintaining control however, at some point a defendant will cut off the monitor and run. He said the program is not only a form of cost savings to the City, but for society in general. He stated that when an individual is incarcerated they risk losing their job which would create an additional burden on society. He expressed his support in providing an opportunity for the Court to maintain control and issue justice in a manner that allows defendants to remain productive members of society.

In response to a question from Committeewoman Higgins, Mr. Lemke explained that defendants are always provided a bond amount. He said EM can be ordered in lieu of bond and if the defendant wants to be released from EM the bond amount must be paid. He explained that if someone was not financially able to post the bond EM could be an option.

Discussion ensued regarding circumstances when EM would be appropriate in order to avoid the costs associated with transporting and housing defendants at the County Jail.

In response to a question from Chairman Finter, Mr. Lemke advised that since the inception of the program in August of 2008 until May 31, 2011, 795 people have been placed on the Electronic Monitoring Program.

Chairman Finter thanked staff for their efforts.

Follow – up Review of Custodial Services Contracts

Ms. Ruttman provided a follow-up review from a previous audit of Custodial Services Contracts (**See Attachment 2**) and said that it had been found that some of the custodial contractors did not undergo background checks. She advised that additional issues involved verifying Arizona Legal Worker's Act (ALWA) compliance. She stated that contractors need to make sure that they are fully compliant with the legal requirements in terms of verification of employees. In addition, she said it was determined that documentation of performance related issues needed improvement. She reported that a process has been put in place to address these issues. She added that the majority of the corrective action plans provided have been implemented however, there are a couple of remaining issues still in progress.

Ms. Ruttman advised that there was an issue related to Parks, Recreation and Commercial Facilities (PRCF) ability to follow up and reconcile the background checks and access/ID cards for the custodians at Hohokam Stadium. She explained that PRCF had not implemented the follow-up process due to the fact that the custodians received the cards just prior to the follow-up review. She said an additional issue relates to the management policy and procedure for obtaining background checks for contractors and the lack of a responsible party to ensure that the process is completed.

Responding to a question from Chairman Finter, Director of Parks and Recreation Mark Heirshberg explained that the follow-up review was conducted right after Spring Training began and that the contractor and their staff was not brought on until that point. He said that once the contractor was brought on the ID cards were issued and there was not enough time to do a follow-up. He advised that the season is now over and the contractors are gone however, a follow-up will be conducted to make sure personnel are current for the next season. He added that the industry makes the process difficult to know ahead of time who will be employed due to the high turn over.

Responding to a question from Committeemember Somers, Ms. Ruttman explained that E-Verify is a program that is conducted by the Contract Administrator in the City Manager's office. She said that Parks and Recreation is responsible for the background checks that are done prior to issuing City identification badges that allow individuals to be on City property. She added that the background checks are more of a security check than a right to work issue.

Committeemember Somers remarked that he did not want a repeat of what happened at the City Library where one of the contractors was not hiring legal worker.

Ms. Ruttman advised that the issue of contractors not hiring legally has been addressed by the City Manager's office and a process has been put in place to make sure that contractors are tested on a regular basis and required to provide evidence that the people they have working on City facilities are working legally. She advised that when contractors are not able to prove they have completed background checks, contracts have been terminated.

Chairman Finter commented that the maintenance on the future Cubs facility will be the responsibility of the Cubs and not the City. He added that the City will be responsible for other facilities such as Hohokam Stadium.

Procurement Card Program

Ms. Ruttman advised that the Procurement Card Program was reviewed to ensure that there were adequate controls in place to prevent or detect any fraud or misuse that may be occurring. She said the review also ensured that the procedures in place were being followed to improve the effectiveness of the program. She stated that the Citywide audit of the Procurement Card Program was conducted with the assistance of the Purchasing Division. **(See Attachment 3)**

Ms. Ruttman reported that recommendations from the Procurement Card audit relate to policies, procedures and controls that could be improved. She advised that it was determined that authorization requirements, policies and procedures should be included on the forms used by cardholders. She stated that another issue related to Merchant Category Restrictions. She explained that the assumption was that the bank that administered the procurement cards was updating the City on new merchant categories. She said that the bank was not updating the City and a new procedure has been put in place to review the merchant categories on a regular basis.

Ms. Ruttman advised that card holder accountability is an area of concern as it relates to Missing Documentation Forms. She said that a Missing Documentation Form is a form that a cardholder must submit if they do not have a proper receipt for a purchase. She explained that if a card holder submits the Procurement Card Statement and does not have a receipt to back up a transaction a Missing Documentation Form is completed. She stated that the form contains all the information that is on a receipt and is signed and submitted by the cardholder to attest that the transaction was in fact a City purchase. She reported that Accounts Payable would be monitoring the Missing Documentation Forms, as well as the late submission of documentation. She added that cardholders will be held accountable and could have their procurement card revoked if a significant amount of Missing Documentation Forms are received.

Responding to a question from Chairman Finter, Ms. Ruttman advised that the Procurement Card Program had not experienced any significant problems. She explained that there have been instances where cardholders have not submitted their paperwork on time and procurement cards have been revoked however, this has been infrequent and most cardholders are fairly compliant. She added that the program is being monitored effectively and there is a great deal of cooperation between the cardholders and the Purchasing and Accounts Payable Departments.

Business Services Director Ed Quedens introduced Senior Program Assistant Stacie Hopper who is the Procurement Card Administrator. Ms. Hopper advised that she has been monitoring the Procurement Card Program for 2 years and believes that the Program provides a convenient opportunity for employees to purchase small items.

Chairman Finter commented that if a Procurement Card Program is abused it can be devastating and can cause the City to lose credibility. He added that the Committee supports staff in their efforts.

Mr. Quedens remarked on how well Ms. Hopper manages the Procurement Card Program. He stated that she will not hesitate to revoke a procurement card if a user fails to submit documentation.

Ms. Ruttman reported that an added benefit of the CityEdge financial system is that it will provide the City with the ability to take advantage of other programs and increase the rebates received on purchases.

Chairman Finter thanked staff for their efforts.

2-b. Discuss and provide direction on the FY 2011/2012 Annual Audit Plan.

Ms. Ruttman provided the Committee with the Annual Audit Plan for the FY 2011/2012 and said that the audits are scheduled based on many factors, including requests from management and Council as well as previous audits and risk analysis. She stated that due to limited resources the Audit Plan covers the areas where it has been determined that an audit would be the most beneficial. **(See Attachment 4)**

Ms. Ruttman advised that due to the large amount of Federal Funds involved, the Fire Department's use of grants for Emergency Management purposes and major disasters will be evaluated. She said that the Fire Department manages a large warehouse of equipment and supplies that are used in the event a disaster should occur.

Responding to a question from Committeewoman Higgins, Ms. Ruttman explained that the Fire Department has a process in place to receive reimbursements for the work performed on wildland fires. She said she would research and determine how the Fire Department is being reimbursement by the Federal government for their work conducted on wildland fires.

Ms. Ruttman advised that the Police Department's use of Racketeer Influenced Corrupt Organizations Act (RICO) Funds will be evaluated to verify that all the statutory requirements are being met in the expenditure of the RICO funds and that controls are in place.

Ms. Ruttman reported that the Cemetery has experienced some concerns in the past and some internal controls were established to ensure that all the money generated by the Cemetery is received and recorded by the City. She stated that following a Citywide cash review it was determined that controls need to be in place at the Cemetery.

In response to a question from Chairman Finter, Mr. Heirshberg advised that the Department has been working cooperatively with the City Auditor. He said there were concerns regarding the Cemetery when he was initially hired and he was asked to follow-up to ensure that controls had been put in place. He added that it is always good to have someone else review the procedures to make sure the right processes are being followed.

Ms. Ruttman stated that due to the risks involved cash is no longer accepted at the Cemetery.

Ms. Ruttman explained that decentralized banking is bank accounts that are managed outside of the Accounting Division, such as Employee Benefits accounts and Workman's Compensation accounts. She advised that the Accounting Department has put some controls in place to monitor these accounts and those controls will be evaluated to ensure they are adequate and the funds are not at risk.

In response to a question from Committeewoman Higgins, Ms. Ruttman explained that all bank accounts will be brought into the CityEdge system however, the controls will remain at the department level and will need to be monitored.

Ms. Ruttman reported that the Downtown Mesa Association (DMA) will be evaluated to ensure all the contract terms are being met. She said DMA has been on the "radar screen" for awhile and it is time to spend the resources and verify compliance.

Ms. Ruttman stated that it has been suggested over the years that Code Compliance be evaluated however, the resources have not been available. She said it is always uncertain how Code Compliance will be funded making it difficult to audit. She stated that the Community Development Block Grant (CDBG) funds will be evaluated to ensure that all the funding requirements are being met. She added that other funding models will also be explored in case CDBG funds become unavailable.

Ms. Ruttman commented that it has been a number of years since the Museums were last reviewed therefore, the Museums' internal controls will be evaluated to prevent problems.

Ms. Ruttman advised that the audit schedule can be adjusted to accommodate special requests for audits from the City Council or City Manager throughout the year. In addition, she said if time allows other audits may be conducted including the following:

- ITD Disaster Recovery
- Fire Prevention Fee-Based Services
- Citywide Building Access/Security

Ms. Ruttman reported that on-going audits that will be reported to the Committee when completed include the following:

- Use of Temporary Labor and Personal Services Contracts
- Use of State Contracts and Cooperative Agreements
- Fleet Services – Fuel Management and Procurement

Ms. Ruttman stated that the City Auditor's office will conduct follow-up reviews on previous audits to verify that corrective actions have been implemented. In addition, she said Consulting and Investigative Services such as the Fraud and Ethics Hotline Investigations and the Payment Card Industry Data Security Standards will also be monitored and reviewed.

Ms. Ruttman advised that Auditors will also assist and consult other departments when new programs or controls are being developed or implemented. She said that Council Report Reviews will be performed to verify financial data and information that has been provided in Council Reports. She also advised that MesaStat Observations, which is a performance measure, will be reviewed to determine if measurements are accurate and the right conclusions are drawn. She reported that she is personally monitoring the CityEdge activities and offering audit perspectives. She noted that staff has been very cooperative in providing the information she has requested.

In response to a question from Committeewoman Higgins, Ms. Ruttman explained that there are three Senior Auditors, as well as herself that are conducting the audits listed in the Audit Plan. She added that at this time there is no budget for outsourcing.

Chairman Finter remarked that the Council is holding the City Auditor accountable and the Committee would like to be made aware of anyone that does not work cooperatively with the Auditor. He added that having a creditable audit system is a benefit to the City and the Committee supports the efforts of the Auditor.

Ms. Ruttman stated that the City Auditor's office works hard to establish cooperative relationships with all City departments. She requested that the Committee approve and recommend to the Council that the Annual Audit Plan for the FY 2011/2012 be approved.

It was moved by Committeemember Somers, seconded by Committeewoman Higgins, to recommend that the Annual Audit Plan for the FY 2011/2012 be approved by Council.

Chairman Finter thanked staff for the presentation.

(NOTE: Ms. Ruttman advised that the Annual Audit Plan for the FY 2011/2012 that will be presented to Council will include the information requested by Committeewoman Higgins regarding the Fire Department reimbursements).

2-c. Hear a presentation, discuss and make a recommendation on an ordinance amending the Mesa Tax Code.

Business Services Director Ed Quedens provided a brief history on the Tax Code and said that a Model City Tax Code was adopted in the 1980's to provide uniformity among municipal tax collections. He stated that the Municipal Tax Commission has adopted four changes to the Model City Tax Code and it is requested that the amendments be recommended to full Council and incorporated into the Mesa City Tax Code. He introduced Audit and Tax Administrator Mickey Tait who advised the Committee of the proposed amendments to the Mesa Tax Code (MTC). **(See Attachment 5)**

Ms. Tait reported that a clarification to the Tax Code regarding medical marijuana was approved by the Municipal Tax Code Commission. She said Prop 203, the Medical Marijuana Act, requires a certification from a physician with regards to the patient's ailment. She stated that it should be clarified that the sale of medical marijuana has been deemed taxable and is consistent with the Arizona Department of Revenue and the Arizona Attorney General's interpretation of the laws.

In response to a question from Committeewoman Higgins, Ms. Tait explained that medical marijuana is taxable as it is a sale of tangible personal property. She said that drugs that are prescribed by a physician and approved by the Food and Drug Administration (FDA) are not taxed. She stated that doctors do not have a legal right to prescribe medical marijuana because it is not an approved drug however, they can certify that a patient has a particular ailment. She added that physicians do not certify the use of medical marijuana; they only certify that the patient has a particular ailment.

Ms. Tait advised that the definition of the term "food" will need to be clarified, as there may be food type products that implement or infuse medical marijuana. She said the change in the "food" definition follows the similar exclusion of tobacco or alcohol products.

Mr. Quedens explained that the Unified Audit Committee consists of auditors from around the State. He said the amendments requested are consistent with changes that the State is making at the Department of Revenue level. He stated that these changes are not being implemented by the City, but by Municipal Tax Collectors throughout the State.

Ms. Tait stated that a second change to the MTC relates to solar energy devices. She said that the sunset deadline for the Solar Energy Tax exemption was extended to January 1, 2017 and it is requested that the MTC conform to the State law in the adoption of the new sunset date. She said this particular change affects contractors who are seeking to exempt the labor involved in the installation of solar devices.

In response to a question from Committeewoman Higgins, Ms. Tate explained that labor is not always exempt. She said that when improving real property labor is taxable as a construction contract activity. She added that labor in the sense of a retail environment or repair situation is not an improvement on real property and is exempt.

Responding to a question from Committeemember Somers, Ms. Tate said that exempting the sales tax on solar energy devices was established to encourage environmental efforts. She explained that the sale and rental of the devices is exempt and now the labor to install them will be exempt until 2017.

Ms. Tait reported that the third change requested relates to real property rentals between affiliated corporations. She said as a result of HB 2510, the Legislature enacted a preemption upon the cities

that does not allow the imposition of sales tax on rentals when the transaction is between a parent subsidiary corporation. She said since this is a State mandated preemption in Title 42-6004 the City will also be adopting the preemption.

In response to a series of questions from Committeemember Somers, Ms. Tait explained that if Wal-Mart were to rent their store space to themselves they would still be required to pay the property tax however, they would not be required to pay lease/rental sales tax as long as they are a parent subsidiary corporation with 80% ownership. She said the purpose of leasing the property back to themselves is not to receive a tax benefit but to protect assets in the event of a law suit.

Mr. Quedens further explained that HB 2510 was titled "the Wal-Mart bill" and was heavily debated. He added that despite strong opposition HB 2510 was passed.

Discussion ensued regarding how a business could rent or lease property as a parent subsidiary and not be required to pay rental sales tax.

Ms. Tait advised that SB 1196 is a State preemption of Municipal Tax that prohibits cities and towns from taxing the storage, use, or consumption of tangible personal property by a school district or charter school. She said that in most situations schools buy from a local vender and the local vendors would be responsible for the collection and remittance of the tax. She explained that the change affects out-of-state purchases made by a school district or charter school where no tax was paid at the time of purchase. She said the use tax was set up to develop a level of commerce for in-state and out-of-state vendors. She added that the in-state vendors are still required to charge tax however, out-of-state vendors do not have to pay the corresponding use tax.

It is moved by Committeewoman Higgins, seconded by Committeemember Somers that proposed amendments to the Tax Code be forwarded on to full Council.

Chairman Finter thanked staff for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 10:40 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 16th day of June 2011. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

bdw
(attachments – 5)

Date: April 5, 2011

To: Audit & Finance Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit of Electronic Monitoring Program Savings

cc: Patricia Sorensen, Acting Deputy City Manager
John Pombier, Acting Asst. to the City Manager
Frank Milstead, Police Chief
Matt Tafoya, Presiding City Magistrate
Paul Thomas, Court Administrator
Albert Lemke, Deputy Court Administrator

Pursuant to the Council-approved audit plan, the City Auditor's office has completed an audit of the savings generated by the Mesa Municipal Court's electronic monitoring program. The final report is attached.

Please feel free to contact me if you have any questions or comments about this report.



PO Box 1466
Mesa, Arizona 85211-1466

AUDIT REPORT

CITY AUDITOR

Report Date: April 5, 2011
Department: Municipal Court
Subject: Audit of Electronic Monitoring Program Savings
Audit Period: October 2009 through September 2010

OBJECTIVE

The objective of this audit was to evaluate the cost savings resulting from the Mesa Municipal Court's electronic monitoring (EM) program.

SCOPE & METHODOLOGY

To accomplish our objectives, we:

- Interviewed staff members at the Court, Police, and Information Technology Departments.
- Reviewed electronic monitoring (EM) contract expenses and other documented costs of the program incurred during the audit period.
- Reviewed and analyzed jail cost data for the last 4 fiscal years.
- Reviewed and analyzed program data from the audit period, including EM activity reports as well as Court dates and other case data associated with program-eligible defendants.

BACKGROUND

Mesa pays the Maricopa County Sheriff's Office (MCSO) jail \$188.48 plus \$73.54 per day per defendant to book and house more than 11,000 defendants per year. This amounts to approximately \$5.75 million per year in jail costs. By eliminating the time defendants would otherwise spend in jail awaiting a court hearing, the EM program helps to reduce these costs.

Mesa's EM program was initiated in August 2008 to provide an alternative to traditional pre-trial release programs (such as posting bond) for some defendants. Under the EM program, ankle bracelets equipped with Global Positioning Systems (GPS) are used to monitor pretrial released defendants. The equipment and systems needed to monitor these defendants are provided through a State of Arizona cooperative contract with Pro Tech Monitoring, Inc. The electronic ankle bracelets are installed and activated by Detention Officers at the Mesa Police Department Holding Facility and then monitored by Court personnel. During the audit period, 283 defendants were enrolled in the EM program, with approximately 25 defendants active on the system at any given time.

OBSERVATIONS

Although the EM program does reduce jail costs, the true financial impact of the program cannot be evaluated by simply reviewing total jail costs over time. This is because there are many variables impacting these costs, including statutory requirements, Police policies and procedures, crime trends, booking and housing rates charged by the jail, availability of prisoner transport services, and others. Therefore, in order to isolate the savings realized solely as a result of the program, we calculated the jail costs that would have been incurred for the specific defendants enrolled in the EM program.

Fortunately, in anticipation of this analysis, each time a defendant was placed on electronic monitoring, the Court staff logged the actual court date that would have been assigned to that defendant if he or she had not been placed on the program. This provided a reliable means to estimate the number of jail days saved. We then applied the current booking and housing rates charged by the jail to the number of jail days avoided by the individual defendants, and the result was a total savings of approximately \$340,000. This amount was then reduced by \$95,000 to account for defendants who would likely have been released on bond if not placed on the EM program (based on historical data), leaving a total jail cost savings of \$245,000.

The Court has also suggested that additional savings has been realized due to jailed defendants being transported back to court an average of seven days sooner than they otherwise would have been if the EM program had not been implemented. This additional savings was estimated to be approximately \$121,000. However, despite considerable analysis of the available data, we were unable to confirm that this savings was realized.

During the audit period, EM program costs included \$81,500 for the monitoring system contract, \$27,600 for staff labor and \$1,600 for miscellaneous supplies and equipment used in the monitoring process. These costs were subtracted from the identified jail savings to determine the net savings from the EM program.

CONCLUSION

Based on all available data, it is our opinion that the Court's Electronic Monitoring Program saved the City approximately \$134,300 during the 1-year audit period.

Jail Cost Savings	\$245,000
EM Program Costs	<u>(\$110,700)</u>
Net EM Program Savings	<u>\$134,300</u>



20 E Main St Suite 820
PO Box 1466
Mesa, Arizona 85211-1466

Date: May 26, 2011

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Follow-up Review of Custodial Services Contracts – Final Report

cc: Kari Kent, Deputy City Manager
Trisha Sorensen, Assistant to the City Manager
John Pombier, Acting Assistant to the City Manager
Dennis Ray, Facilities Maintenance Director
Marc Heirshberg, PRCF Director
Tom LaVell, Contracts Administrator

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of our May 2010 audit of the City's custodial services contracts. The final report, appendix, and management's responses are attached. Please feel free to contact Jason Taylor at x3635 or me at x3767 if you have any questions.



20 E Main St Suite 820
PO Box 1466
Mesa, Arizona 85211-1466

FOLLOW-UP REVIEW

CITY AUDITOR

Report Date: May 18, 2011

Departments: Various

Subject: Follow-up Review of the Custodial Services Contracts Audit

OBJECTIVE

The objective of this review was to determine whether Facilities Maintenance; Parks, Recreation, and Commercial Facilities (PRCF); and the City Manager's Office have effectively implemented the action plans presented in their responses to our May 2010 audit of the City's Custodial Services Contracts.

SCOPE & METHODOLOGY

To accomplish our objectives, we questioned City staff members and reviewed security-related policies and procedures, ID/access card listings, Arizona Legal Workers Act (ALWA) verification documents, and contract master files.

BACKGROUND

On May 11, 2010, we issued a report on our audit of the City's Custodial Services Contracts. The objectives of that audit were to verify compliance with the contracts' terms; verify compliance with federal and state immigration laws and regulations; and determine whether there are opportunities for improvement in the monitoring of custodial services contracts.

The audit report included several recommendations, which can be summarized as follows:

1. Facilities and PRCF should ensure that custodial contractors receive background checks. Further, City management should revise policies and procedures to explicitly require background checks for individuals who will be granted unaccompanied access to non-public areas.
2. In verifying ALWA compliance, the Contracts Administrator should review actual employment records, such as e-Verify reports, for evidence of current work eligibility.
3. Facilities should better document and monitor performance-related communication with the custodial contractor.

In response to the report, the respective departments agreed with the recommendations and presented corrective action plans.

CONCLUSION

The majority of the corrective action plans have been implemented; however, two are still "in progress". A complete list of corrective action plans, along with our findings regarding their implementation status at the time of this review, is presented in the attached [Appendix](#).

Responses from the respective departments are also attached. We plan to conduct another follow-up review in approximately 9 months, to re-assess the status of the two remaining corrective action plans.

RECOMMENDATIONS

We recommend that management complete the implementation of the two corrective action plans listed below, which were still in progress at the time of this review. If a plan cannot or should not be implemented due to changing circumstances, systems, or processes, alternative corrective actions should be substituted to effectively address the original finding.

1. Parks, Recreation, and Commercial Facilities

Response to original audit recommendation:

"Parks, Recreation and Commercial Facilities will request monthly employee lists and will work with Municipal Security to verify and reconcile the list of eligible employees to those that have been issued access/ID cards. Any discrepancies identified will be immediately addressed with the vendor."

Follow-up Finding: Implementation in progress

PRCF has not had a chance to implement this because the custodians only recently received ID cards.

PRCF Response is attached to this report.

2. City Manager

Response to original audit recommendation:

"... The City's Contracts Administrator is currently working with the Human Resources Department to develop a new Management Policy to ensure that a consistent, citywide process (and corresponding contractual language) is developed and implemented."

Follow-up Finding: Implementation in progress

Draft revisions have been made to an existing Management Policy requiring a successful background check prior to issuance of ID/Access cards. However, the revised draft has not yet been finalized. Poor communication, inconsistent guidance, conflicting priorities, and the absence of a single responsible party have prevented the implementation of a consistent process citywide.

City Manager Response is attached to this report.

APPENDIX

✓ = Implemented = In Progress X = Not Implemented

Corrective Action

Implementation Status

CAP#1: Security Weaknesses

<p>FACILITIES MAINTENANCE DEPT: Facilities Maintenance will work with the current custodial contractor to ensure that all of the contractor's employees receive background checks conducted through municipal security. Facilities Maintenance will further ensure that all future employees of the current contractor and future all contractors abide by the requirement for background checks as specified in the contract.</p>	<p>Partially Implemented Prior to Follow-up Review / Fully Implemented After Follow-up Review</p> <p>Due to a miscommunication between Facilities Maintenance and Municipal Security, 6 custodians had not been background checked at the time of this review. However, Facilities subsequently ensured that the background checks were performed, and has improved their process to ensure compliance in the future.</p>	<p>✓</p>
<p>FACILITIES MAINTENANCE DEPT: The Facilities Maintenance custodial services contractor currently provides a monthly employee list to Facilities Maintenance and Municipal Security. The Facilities Maintenance Contract Specialist will meet with Municipal Security each month to reconcile the list of eligible employees and to resolve any discrepancies. Facilities Maintenance will also meet with the custodial contractor on the first Wednesday each month to resolve any clearance, access/ID card, and service issues. Facilities Maintenance is also developing a formal written escalation procedure that defines how failures to adhere to contractual terms will be documented and how liquidated damages will be applied.</p>	<p>Implemented</p> <p>Facilities is consistently reconciling custodian lists, following up on discrepancies, and verifying that ID/access cards are returned upon termination.</p> <p>Facilities no longer believes it is necessary to develop a formal escalation procedure beyond the contract terms. However, this was not part of our audit recommendation.</p>	<p>✓</p>
<p>PRCF DEPARTMENT: The contract for custodial services at the HoHoKam Stadium is held by the HoHoKams and is not a City contract. However, PRCF agrees that all custodial services employees assigned to the stadium should have photo ID cards issued through municipal security. PRCF is working with the HoHoKams to ensure that photo ID cards are issued for all custodial services employees working at the stadium. In addition, when this contract expires (Aug. 2010) the City will assume control of any new contract and include requirements for background checks.</p>	<p>Implemented</p> <p>Beginning February 2011, the custodians serving HoHoKam Stadium were issued ID cards based on successful background checks.</p> <p>The City has not assumed control of a new contract. However, this was not part of our audit recommendation.</p>	<p>✓</p>

APPENDIX

= Implemented = In Progress X = Not Implemented		
<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>PRCF DEPARTMENT: Parks, Recreation and Commercial Facilities will request monthly employee lists and will work with Municipal Security to verify and reconcile the list of eligible employees to those that have been issued access/ID cards. Any discrepancies identified will be immediately addressed with the vendor.</p>	<p>Implementation in progress PRCF has not had a chance to implement this because, as indicated above, the custodians only recently received ID cards.</p>	
<p>CITY MANAGER'S OFFICE: Currently the only City policy or procedure that addresses background checks for City contractors is Personnel Rule 210. The City's Contracts Administrator is currently working with the Human Resources Department to develop a new Management Policy to ensure that a consistent, citywide process (and corresponding contractual language) is developed and implemented.</p>	<p>Implementation in Progress Draft revisions have been made to an existing Management Policy requiring a successful background check prior to issuance of ID/Access cards. However, the revised draft has not yet been finalized. Poor communication, inconsistent guidance, conflicting priorities, and the absence of a single responsible party have prevented the implementation of a consistent process citywide.</p>	
<p>CAP#2: Noncompliance with the Arizona Legal Workers Act (ALWA)</p>		
<p>CITY MANAGER'S OFFICE: The City's ALWA compliance verification process and work instructions have been updated to require contractors selected through the ALWA compliance verification process to submit appropriate e-Verify reports for each of the contractor's employees identified as working under a City of Mesa contract.</p>	<p>Implemented A consistent process for ALWA verification has been successfully implemented by the City's Contracts Administrator.</p>	
<p>CAP#3: General Contract Monitoring Improvements</p>		
<p>FACILITIES MAINTENANCE DEPT: Facilities Maintenance will be adopting the CityWorks CMMS within the next two months. This system will allow Facilities Maintenance to more fully document, integrate, track, and evaluate all performance-related communications, work requests, contract changes, and other contract performance documentation. Until the CityWorks CMMS is implemented, Facilities</p>	<p>Implemented Facilities Maintenance has not found the CityWorks CMMS to be as functional as expected for tracking/monitoring performance-related communication. However, performance-related communications are now consistently copied to the Contract Specialist, and</p>	

APPENDIX

 = Implemented = In Progress X = Not Implemented	
<u>Corrective Action</u>	<u>Implementation Status</u>
<p>Maintenance will ensure that all performance related communications are copied to the Facilities Maintenance Contract Specialist and the Facilities Maintenance Financial Coordinator. The Facilities Maintenance Contract Specialists will meet on a weekly basis to discuss any contractual issues observed in the various facilities under their purview and contractor performance in general. In addition, a copy of any performance related communications will be kept and filed with the appropriate vendor invoice.</p>	<p>are discussed at regular meetings with the Contract Monitors and the contractor. Issues have been escalated as appropriate.</p>

interoffice MEMORANDUM



Date: May 23, 2011

To: Jennifer Ruttman, City Auditor

Through: Christopher J. Brady, City Manager
Kari Kent, Deputy City Manager

From: Marc Heirshberg, Parks, Recreation and Commercial Facilities Director

Subject: May 18, 2011 - Follow up Review of Custodial Services Contracts Audit

This memo is in response to the recommendations made from the City Auditor's office in your May 18, 2011 memo regarding the follow up review of custodial services. The PRCF Department concurs with your findings and all custodial services contract personnel at Hohokam Stadium have received city issued ID cards. As indicated in your review enough time had not passed between the issuing of ID cards and the report to conduct a reconciliation of personnel working and those issued ID cards by Municipal Security. However, the department believes that when a follow-up review is done in nine months your office will find that a system is in place to verify and reconcile with Municipal Security and the contractor that the appropriate eligible personnel are properly credentialed.

Again, I would like to thank the City Auditor's office for their assistance in this review and for providing the PRCF Department with useful recommendations.

Please don't hesitate to contact me if you have any additional questions or concerns.



Financial Services Department

DATE: May 25, 2011
TO: Jennifer Ruttman, City Auditor
COPY: Chris Brady, City Manager
Trisha Sorensen, Assistant to the City Manager
FROM: Tom LaVell
Financial Services Administration
SUBJECT: Custodial Services Audit Follow-up

The following Corrective Action was identified as "In Progress" on the Follow-up Review of the Custodial Services Contracts Audit issued by your office on May 18, 2011. Below is a brief update on progress made to date in completing the Corrective Action, issues that are still outstanding, and estimated completion date of the Corrective Action.

Corrective Action: Currently the only City policy or procedure that addresses background checks for City contractors is Personnel Rule 210. The City's Contracts Administrator is currently working with the Human Resources Department to develop a new Management Policy to ensure that a consistent, citywide process (and corresponding contractual language) is developed and implemented.

The Human Resources Department undertook a review of their policies and procedures in relation to contractor background checks and Personnel Rule 210. It was determined that Personnel Rule 210 would need to be modified to allow for background checks to be applied to a broader scope of contractors (the rule was initially very narrowly defined and only applied to a specific subset of "independent contractors").

In addition, Human Resources developed a Background Check Guidelines procedure that defines how the City conducts background checks for non-employee contractor personnel. The guidelines incorporate a tiered process whereby the extent of the background checks applicable to contractors is dependent upon the security of the area or facility where they are working and the risks inherent in the environment they are working in (e.g. working around minors, the elderly, etc.). The guidelines are intended to provide the most flexibility to departments using contractors and to expedite the background check process to the degree that is reasonable and prudent given the circumstance involved in each unique situation. The guidelines are posted on the Human Resources/Personnel web site on InsideMesa and are attached for reference.

20 East Main Street Suite 450
P.O. Box 1466
Mesa, Arizona 85211-1466
480.644.2361 Tel
480.644.2687 Fax

In addition to the changes in Personnel Rule 201 and the Background Check Guidelines, Management Policy 116 needed to be updated to reflect the changes in procedures and to specifically reference the Human Resources Background Check Guidelines. The Management Policy has been revised, reviewed by Human resources and was submitted to the City's executive management staff for review and comment on April 13, 2011; comments on the revised policy were received on April 28. A significant number of suggested changes and edits were submitted by City staff and have not yet been fully reviewed. Comments received will be evaluated and incorporated into a second revision of the Management Policy as appropriate.

The challenge continues to be coordinating multiple City policy statements and guidelines as well as coordinating implementation of those policies and guidelines across multiple departments and areas of responsibility with differing business needs. Due to the extent of the suggested revisions, the Policy will be revised and submitted again to the City's executive management staff for review. Ideally the Management Policy will be finalized and in place no later than mid-July 2011.

Background Check Guidelines Contractor/Non-Employee Staff

Purpose

These guidelines were established in an effort to provide guidance to departments in determining when a contractor(s) and/or non-employee staff would be subject to a background check.

For the purpose of this document the term “contractor” is defined as an independent contractor and/or contract worker. The term “Non-employee staff” is defined as a temporary agency worker, volunteer, intern, extern, etc.

Guidelines

The levels referenced below (0 through 3) were developed to assist departments in determining the appropriate type of background needed, if any, for all contractors and/or non-employee staff members providing services to the City.

Determining the appropriate type of background is primarily based on the work the contractor/non-employee staff will be performing, the location, the duration and his/her exposure to minors, disabled and the homebound or high security facilities, systems, information, etc.

The department representative will be responsible for determining the type of background required and for sending the contractor/non-employee staff to Human Resources (HR), Preferred Support Services (PSS), or Mesa Police Department (PD) to initiate the background process as outlined below. If there are any questions, please contact:

Jackie Hale, HR Specialist II
Jackie.hale@mesaaz.gov
(480) 644-3180

Lisa Angiano, Sr. HR Specialist
Lisa.angiano@mesaaz.gov
(480) 644-4414

Temporary Agency Workers Note

Temporary agency workers hired through Allstaff Temporary Agency will complete a web-based (Level 1) background check conducted by Allstaff Temporary Agency prior to assignment.

Important Note

For Level 1 through 3, background results must be received **prior to** a badge and/or building access being granted by the PD /Facilities Access.

LEVEL 0

No Special Security Requirements. No background check or fingerprinting required.

This level represents projects/assignments occurring in areas that are not normally secured (even after hours), including street, utility, and landscape projects and/or similar projects occurring **outside** of secured areas. **Projects/assignments to Police Department facilities will require a Level 3 background clearance.**

NOTE: Although not required, the department may request HR conduct a web-based background by following the **Requesting a Web-Based Background Check** referenced as part of the Level 1 background process.

Requesting a City Identification Badge from Police Department/Facilities Access

Background Check Guidelines Contractor/Non-Employee Staff

LEVEL 1

Web Based Background Check through Priority Research, Inc. No fingerprinting required.

This level is required for all secured City buildings and sites not included in Levels 2 or 3 and includes: utility treatment plants, well sites, PRV stations, MCP Building, fire stations, service centers, maintenance shops, 55 N. Center, Council Chambers, Utilities Building, Transportation Bldg, electrical substations, UCC, TMC, etc.

This type of background check is based on: name, date of birth, social security number and address; and will provide criminal history for at least the past 7 years. Results are typically received within 24 to 48 hours. Although this type of background is not as extensive as the fingerprint background, it does allow the City to obtain criminal history on individuals who don't meet the fingerprinting criteria as indicated in the City's ordinance (i.e., Personnel Rules).

The cost is minimal at \$7.50 per search, which includes a nationwide criminal search, nationwide sex offender search and Social Security trace. The cost of this search is charged back to the department by HR upon receipt of invoice from Priority Research, Inc.

Requesting a Web-Based Background Check

To request a web-based background check through Priority Research, Inc:

1. Have individual(s) **complete** the appropriate form. **NOTE:** Incomplete information will delay the process and notification of clearance:
 - a. Contractor PR Form
 - b. Non-Employee Staff PR Form
2. Submit the form, along with a legible copy of the contractor's/non-employee staff member's driver's license (**front and back**), to Human Resources – Mesa City Plaza Building, Personnel Office, 20 E. Main Street, Suite 130.
3. Human Resources (Jackie Hale or Lisa Angiano) will contact the City contact/supervisor and the Police Department/Facilities Access, via email, once results have been received and clearance determined.
 - a. Unsatisfactory background information will be relayed to the applicable Department Director for further review and approval/denial.
4. Upon confirmed clearance from HR you can begin PD's process for badging and, if applicable, building access.

LEVEL 2, LEVEL 3 - ESCORTED, AND LEVEL 3 - UNESCORTED

LEVEL 2 (non-Criminal Justice facilities): Fingerprint based background through Department of Public Safety (DPS) and Federal Bureau of Investigation (FBI) per Personnel Rules, Section 210.

This level is required for high security non-Criminal Justice Facilities and/or where the contractor/non-employee staff may have contact with minors, disabled or homebound persons,

Background Check Guidelines Contractor/Non-Employee Staff

including (but not limited to): ITD Data Center, libraries, museums, Red Mountain Multi-Generation Facility, Mesa Arts Center.

LEVEL 3 - ESCORTED (Criminal Justice facilities): This level is required on all contractors/non-employee staff assigned to high security facilities associated with the criminal justice system (Police Department facilities, City Prosecutor and Courts) and includes any type of work in Police Department facilities, 911 Communications Building, Prosecutor's offices and Courts. This level of clearance requires escorted access to these facilities, which means the contractor/non-employee staff member must be escorted by an employee, or designee, of that facility.

Both background levels include a search of DPS/FBI databases by name, date of birth, and social security **AND** fingerprints. This is a true state and nationwide search of all criminal offenses since 18 years of age. Results can take up to 4 to 6 weeks to receive. The City's fingerprinting vendor is Preferred Support Services (54 S. Center St., Mesa). The cost of fingerprinting is \$32.00 per card for volunteers and \$36.00 per card for all others, which is charged back to the department by HR upon receipt of invoice from PSS.

In accordance with the Personnel Rules, it is critical that departments understand contractors/non-employee staff should **only** be fingerprinted if the following apply:

1. Contract workers/non-employee staff who are eighteen (18) years of age and older and anticipated to be in contact with minors, disabled or homebound individuals; **OR**
2. Contract workers/non-employee staff assigned to work in security sensitive areas. For the purpose of fingerprinting under the Personnel Rules, security sensitive areas are:
 - a. Criminal Justice Administration (i.e., Police Department facilities, City Court or City Prosecutor Offices)
 - b. Individuals who are eighteen (18) years of age or older and placed in certain ITD assignments
 - c. Individuals who are eighteen (18) years of age or older and will be responsible for handling cash or credit card information

Requesting DPS/FBI Fingerprinting

To request a DPS/FBI fingerprint background:

1. Provide your contractor(s)/non-employee staff with the appropriate fingerprint authorization form. **NOTE:** Incomplete information will delay the process and notification of clearance:
 - a. Fingerprint Auth Form – Contractors
 - b. Fingerprint Auth Form – Non-Employee Staff
2. Direct him/her to Preferred Support Services (address and hours of operation listed at the bottom of the form). No appointment is necessary.

NOTE: Fingerprint cards are hand delivered to DPS in Phoenix twice a week.

Background Check Guidelines Contractor/Non-Employee Staff

3. Original fingerprint cards and results are sent from DPS to the City of Mesa Human Resources office for review:
 - a. Contractors/non employee staff with no criminal history information will be cleared through HR with notification of clearance sent to the City contact and emailed to "Badge and Building Access Request".
 - b. Contractors/non employee staff with criminal history information will require additional review by the Department Director over the area in which the work will be completed.
 - After review of the criminal history information, if the Department Director is still interested in utilizing the contractor/non-employee staff:
 - **LEVEL 2 (non-Criminal Justice facilities):** HR will document approval granted by Department Director and notify the department contact and "Badge and Building Access Request" via email.
 - **LEVEL 3 – ESCORTED (Criminal Justice facilities):** Prior to allowing the contractor/non-employee staff to begin his/her assignment, HR will need to advise the PD Hiring Unit of criminal history information for a review and approval/denial process.
4. Upon confirmed clearance from HR you can begin PD's process for badging and, if applicable, building access.

LEVEL 3 - UNESCORTED (POLICE DEPARTMENT FACILITIES): This level is required and coordinated by Mesa Police Department Hiring Unit (by appointment only) on all City employees, contractors/non-employee staff who will require unescorted access to any Police Department facility. This level of clearance allows the employee, contractor(s)/non-employee staff member(s) to access PD facilities and perform necessary work without the escort of a PD facility employee, or designee.

The background process may include any or all of the following: Live Scan fingerprinting, Wants and Warrants check, Criminal History check, Background Investigation, Pre-Polygraph Questionnaire Review, and/or a Polygraph examination.

Requesting Police Department Background and Clearance

1. Notify PD Hiring, via email, with the following project/assignment information:

Contractors: Isabel Anderson (480) 644-3453

Non-Employee Staff: Nancy Valenzuela (480) 644-3112

- a. Name and contact information of the **City contact**
- b. Location and duration of project/assignment
- c. What the project/assignment will entail
- d. The number of individuals working on the project/assignment
- e. Name and contact information of the **company/individual**

Background Check Guidelines Contractor/Non-Employee Staff

2. After notification email is sent to Isabel/Nancy, advise the company/individual to contact Isabel/Nancy to schedule the background process.
3. Notice of clearance will be provided by PD to the project/hiring contact person and PD Badging and Building Access Office via email.
4. Upon confirmed clearance from PD you can begin PD's process for badging and, if applicable, building access.

REPRINTING REQUIREMENTS – AFTER A BREAK IN SERVICE

LEVEL 2 (non-Criminal Justice facilities):

The Personnel Rules, Section 210 – General Employment Provisions, indicate the following requirements when there is a break in service:

“E.1. The City of Mesa shall obtain a full set of fingerprints from the persons identified in this section.

- a. 4) All temporary agency workers, independent contract workers, and volunteers eighteen (18) years of age and over who are anticipated to be in contact with minors, disabled or homebound persons, or work in security sensitive areas, unless previously fingerprinted for the City within the last twelve (12) months.”

LEVEL 3 – ESCORTED/UNESCORTED (Criminal Justice facilities/PD facilities):

Upon return of a break in service, a web-based background check may be conducted by Human Resources in lieu of re-fingerprinting if the contractor/non-employee staff member was fingerprinted within the last 12 months. If the individual was fingerprinted outside of the 12 month period, then re-fingerprinting would be required.



20 E Main St Suite 820
PO Box 1466
Mesa, Arizona 85211-1466

Date: June 9, 2011

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Procurement Card Program Audit – Final Report

cc: Trisha Sorensen, Assistant to the City Manager
Ed Quedens, Business Services Director
Jim Ruiz, Purchasing Administrator
John Albin, Materials & Supply Administrator-SA
Stacie Hopper, Sr. Program Assistant
Mary Kay Rota, Sr. Accountant

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed an audit of the City's Procurement Card Program. The final report with management's response is attached. Please feel free to contact Jason Taylor at x3635 or me at x3767 if you have any questions.



20 E Main St Suite 820
PO Box 1466
Mesa, Arizona 85211-1466

AUDIT REPORT

CITY AUDITOR

Report Date: May 9, 2011

Department: Business Services Department/Purchasing Division

Subject: Audit of Procurement Card Program

OBJECTIVES

With regard to the City's Procurement Card Program, determine whether:

- Adequate controls are in place and operating effectively to prevent or detect errors, fraud, waste and/or abuse.
- Procurement card users and administrators comply with applicable policies and procedures.
- Opportunities exist to improve efficiency and effectiveness.

SCOPE & METHODOLOGY

To accomplish our objectives, we reviewed the procurement card services contract, applicable policies and procedures, and other established guidance; interviewed City staff members; and reviewed procurement card transactions from July 1, 2009 through December 7, 2010.

BACKGROUND

The City's procurement card program was implemented in 1999 in order to streamline travel-related and small-dollar purchases and reduce petty cash transactions. Credit limits for City procurement cards generally range from \$500 to \$2,500 per transaction, and \$500 to \$5,000 per month. There are various card types with different limitations, depending on the cardholders' needs. For example, fuel cards can only be used at gas stations and have credit limits as low as \$500, whereas traveler cards may be used at a variety of merchant types and have higher credit limits. At the time of our audit, there were 309 active procurement cards. Total procurement card spending in 2010 was approximately \$2 million.

Cardholders are recommended by their department managers and receive training from the Program Administrator before the cards are issued. Supervisors review all transactions, and then Accounts Payable reviews every invoice/receipt before approving payment to Bank of America. If a concern is identified, Accounts Payable contacts the cardholder and the Program Administrator. The Program Administrator then takes appropriate enforcement action. Depending on the circumstances, this can range from a simple reminder to card revocation. Accounts Payable's review of all transactions and the Program Administrator's proactive monitoring approach provide a strong control environment for the Program.

Mesa uses the City of Chandler's contract with Bank of America for procurement card services, as do several other municipalities. One of the highlights of the agreement is that Bank of America waives all maintenance fees for participating agencies and pays annual rebates to the agencies based on card usage. For rebate year 2010, Mesa's rebate was about \$25,700.

Purchasing has identified various opportunities to increase procurement card rebates. For example, all purchases from the Wist office supply contract are made via procurement card, which will likely account for about \$10,000 in rebates for fiscal year 2011. Purchasing has also begun asking potential vendors whether they will accept payment in the form of procurement cards. Finally, the CityEdge system may allow the City to work with Bank of America to implement a service known as "e-Payables," which could transition even high-dollar vendor payments from check to procurement card while retaining the current levels of review.

CONCLUSION

Overall, the Procurement Card Program is operating effectively and efficiently, and is supported by effective controls. Although we noted no instances of fraud or abuse, we did identify a few opportunities to further reduce risks and improve the Program, as listed below. For additional details, please see the four attached Corrective Action Plans (CAPs).

RECOMMENDATIONS

1. Purchasing should revise its policies, procedures, and forms to more clearly state management authorization requirements for cardholders and their credit limits.
2. To help prevent inappropriate purchases, Purchasing should review merchant category restrictions on an annual basis and revise them as needed.
3. Purchasing and Accounts Payable should improve cardholder accountability for Missing Documentation forms. Specifically:
 - a. Accounts Payable should ensure that all Missing Documentation Forms include itemized descriptions of all purchases.
 - b. Accounts Payable should log cardholders' usage of Missing Documentation Forms and forward the log to Purchasing on a monthly basis.
 - c. Purchasing should establish limits and enforcement actions related to the use of Missing Documentation Forms, and should incorporate them into existing policies and procedures.
4. On an annual basis, Purchasing should identify procurement cards not used within the past year and ask the appropriate managers to determine whether the cards are still needed.
5. Purchasing should continue assessing whether the CityEdge ERP system can be configured to facilitate implementation of e-Payables, as a means to further increase rebates.

CAP #1: Policies, Procedures, and Forms Should Be Clarified

Observations: Several cardholders had increased credit or transaction limits without the required authorization. One cardholder did not have a signed Procurement Card User Agreement on file.

Comments: Management Policy 211, *Procurement Card Program*, requires extended credit limits (over \$2,500 per transaction or over \$5,000 per month) to be authorized by the City Manager or Designee. Unauthorized increases to credit limits could provide an opportunity for fraud or abuse.

By not ensuring that cardholders have read and signed the Procurement Card User Agreement, the Program Administrator cannot be assured that the cardholders understand their responsibilities related to the program. It should be noted that the Program Administrator immediately obtained the proper authorizations and forms for the cardholders that we identified.

The missing documentation that we noted may have been caused by a lack of clarity and consistency among the policies, procedures, and forms used for the Procurement Card Program. Specifically the policies and procedures do not mention all of the required forms/documentation; and the forms do not reference all of the authorization requirements for extended credit limits.

- Recommendations:**
1. Purchasing should clarify some items in the Procurement Card Program's policies, procedures, and forms. Specifically:
 - a. The *Procurement Card Program Guidelines and Procedures* should explain when Procurement Card Change forms should be used, and should specify the required approvals for both the original applications and any subsequent Change Forms.
 - b. Management Policy 211, *Procurement Card Program*, and/or the *Procurement Card Program Guidelines and Procedures* should require that a signed Procurement Card User Agreement be maintained for every cardholder.
 - c. The Procurement Card Application and Change forms should designate the approval required for transaction limits over \$2,500.
 - d. The Procurement Card Application and Change forms should require approval signatures to be accompanied by an employee ID number to help identify the approver.

CAP #2: Merchant Category Code Restrictions Should be Reviewed/Updated

Observations: Current Merchant Category Code (MCC) restrictions are not consistent with the intended restrictions listed in the *Procurement Card Program Guidelines and Procedures*. For example, non-travel cards could be used at hotels, and department office supply cards could be used to make various unrelated purchases. In addition, there are unrestricted MCCs for which no regular business need has been established, including alcohol wholesalers, pawn shops, and tourist attractions.

The City has not assessed the appropriateness of its MCC restrictions for several years.

Comments: When feasible, the City should implement controls designed to prevent or deter fraud, waste, or abuse. For example, Procurement cards can be programmed to automatically decline purchases from certain types of merchants. Specifically, cards intended only for refueling City vehicles can be programmed such that the card is declined when used anywhere other than at a gas station.

Recommendations:

1. Purchasing should review programmed MCC restrictions for all card profiles on an annual basis, revising them to be in alignment with intended business uses.
2. Purchasing should establish a new card profile for department cards, aligning the MCC restrictions with the intended use (currently only office supplies).

CAP #3: Accountability For Missing Documentation Forms Should Be Improved

Observations: We noted a few instances in which cardholders used Missing Documentation Forms, but were not required to provide itemized lists of items purchased. In addition, Accounts Payable and Purchasing do not track how often cardholders use the forms and have not established related usage limits.

Comments: The *Procurement Card Program Guidelines and Procedures* states:
If a receipt is lost, the Cardholder is required to attach a "Missing Documentation Form"...describing the purchase in detail, including the merchant's name, date, amount of purchase and a complete description of what was purchased.

Under the *Procurement Card Program Guidelines and Procedures*, Accounts Payable is responsible for notifying the Program Administrator of payment requests with incomplete/unclear documentation; and the Program Administrator is responsible for modifying or revoking cardholder privileges based on documented incidents of inappropriate use.

Use of a Missing Receipt Form is one way in which a clearly-inappropriate purchase could go undetected, especially if the cardholder does not provide an itemized description of the purchase. Since the use of the Missing Receipt Forms is not tracked, we could not determine the extent of the problem or verify that other instances have been detected or communicated. Formally tracking the use of the Forms would provide a systematic way to ensure compliance.

- Recommendations:**
1. Accounts Payable should ensure that all Missing Documentation Forms include an itemized description of the purchase.
 2. Accounts Payable should log cardholders' usage of Missing Documentation Forms and provide the log to Purchasing on a monthly basis.
 3. Purchasing should establish limits and enforcement actions related to cardholders' use of Missing Documentation Forms, and should include them in the *Procurement Card Program Guidelines and Procedures*.

CAP #4: Unneeded Procurement Cards Should be Identified and Cancelled

Observations: We identified 30 procurement cards that had not been used in at least a year. The respective managers asserted that at least 5 of these cards were no longer needed (several of the remaining cards were still awaiting disposition as of the end of the audit).

Comments: In general, an employee should not have the ability to process transactions if his/her job does not involve doing so. In addition, Management Policy 211 *Procurement Card Program* suggests that, in determining who should have a procurement card, department directors should consider whether the employee's use of the procurement card will enhance productivity.

Each procurement card is subject to the risks of fraud, waste or abuse, whether by the cardholder or an unauthorized user. While various controls are in place to mitigate this risk, including Accounts Payable's detailed review of all transaction receipts, and fraud protection from Bank of America, if a card is no longer needed it should be cancelled to further mitigate the risk.

Recommendation: 1. On an annual basis, Purchasing should identify cards not used within the past year and ask the appropriate managers to determine whether the cards are still needed.



20 E Main St Suite 450
PO Box 1466
Mesa, Arizona 85211-1466

BUSINESS SERVICES
DEPARTMENT

mesaaz.gov

To: Jennifer Ruttman, City Auditor
Date: June 8, 2011
Subject: Audit Response – Procurement Card Program

We appreciate your review and recommendations.

We are pleased that most of the recommendations are very minor and we feel that overall the recommendations will make the program even stronger. We think there may be some opportunities to further enhance the program and we hope we can work with you and your staff to vet these ideas in the near future.

Again, we appreciate your review and look forward to working together as we continue to improve our processes. Special thanks to Jason Taylor for his efforts on this audit.

If you have any questions about our response, please let us know.

Handwritten signature of Jim Ruiz in black ink.

Jim Ruiz, CRPB
Purchasing Administrator

Handwritten signature of Edward Quedens in black ink.

Edward Quedens, CPPO, C.P.M.
Business Services Director

cc: Patricia Sorensen, Assistant to the City Manager

AUDIT RESPONSE FORM
 Audit of Procurement Card Program - May/2011

Recommendation #	Agree Or Disagree	BRIEF Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation noted in the CAP.)	Estimated Implementation Date (M/YYYY)
CAP #1: Policies, Procedures and Forms Should Be Clarified			
Rec #1:	Purchasing should clarify some items in the Procurement Card Program's policies, procedures, and forms. Specifically:		
Rec #1a	Agree	The <i>Procurement Card Program Guidelines and Procedures</i> should explain when Procurement Card Change forms should be used, and should specify the required approvals for both the original applications and any subsequent Change Forms. Various sections of the Procurement Card Program Guidelines and Procedures are being updated to comply with the recommendation.	7/2011
Rec #1b	Agree	Management Policy 211, <i>Procurement Card Program</i> , and/or the <i>Procurement Card Program Guidelines and Procedures</i> should require that a signed Procurement Card User Agreement be maintained for every cardholder. This has been the intent however Section III (G) of Management Policy 211 is being clarified.	7/2011
Rec #1c	Agree	The Procurement Card Application and Change forms should designate the approval required for transaction limits over \$2,500. Monthly limits over \$5,000 were designated as requiring City Manager or designee approval but per transaction limits over \$2,500 were not designated on the forms. Both the Application and Change form have been updated.	5/2011
Rec #1d	Agree	The Procurement Card Application and Change forms should require approval signatures to be accompanied by an employee ID number to help identify the approver. The employee ID number is not used on the bank's system but this recommendation is simply to clarify who signed the application or change form. Both the Application and Change form have been updated.	5/2011
CAP #2: Merchant Category Restrictions Should be Reviewed/Updated			
Rec #1	Agree	Purchasing should review programmed MCC restrictions for all card profiles on an annual basis, revising them to be in alignment with intended business uses. We believed that when new Merchant Category Classifications (MCCs) were added by the bank, that they would only be allowed if we added the MCC to the card profile. It appears though that our assumption was incorrect and new MCCs may have been made available by the bank as they added MCCs without our intervention. We agree that an annual review would be beneficial to open or restrict MCCs based on business need. Certain changes to tax reporting requirements are allowing us to re-examine the use of and the benefits of Merchant Category Classifications (MCC) restrictions. We will include this recommendation in that conversation and resultant program changes.	7/2011
Rec #2	Agree	Purchasing should establish a new card profile for department cards, aligning the MCC restrictions with the intended use (currently only office supplies). Will be addressed in same meeting.	7/2011
CAP #3: Accountability For Missing Documentation Forms Should Be Improved			
Rec #1	Agree	Accounts Payable should ensure that all Missing Documentation Forms include an itemized description of the purchase. Purchasing has met with Accounts Payable to ensure this requirement is met by cardholders and that the P-Card Administrator is notified when the requirement is not met for disciplinary action.	5/2011

AUDIT RESPONSE FORM
Audit of Procurement Card Program - May/2011

Recom- mendation #	Agree Or Disagree	BRIEF Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation noted in the CAP.)	Estimated Implementation Date (M/YYYY)
Rec # 2	Agree	Accounts Payable should log cardholders' usage of Missing Documentation Forms and provide the log to Purchasing on a monthly basis. Accounts Payable has started this process beginning with the statement closing date of 3/15/11.	3/2011
Rec # 3	Agree	Purchasing should establish limits and enforcement actions related to cardholders' use of Missing Documentation Forms, and should include them in the <i>Procurement Card Program Guidelines and Procedures</i> . The Procurement Card Program Guidelines and Procedures are being updated in Section 1, Item C, restating the cardholder's responsibility and possible disciplinary action for repeated violations.	7/2011
CAP #4: Unneeded Procurement Cards Should be Identified and Cancelled			
		On an annual basis, Purchasing should identify cards not used within the past year and ask the appropriate managers to determine whether the cards are still needed.	
Rec # 1	Agree	The Procurement Card Program Guidelines and Procedures are being updated in Section 2, Item E. A query has been developed to identify cards that haven't been used and departments will be asked to surrender the card or justify why the card is still needed.	5/2011



20 E Main St Suite 820
PO Box 1466
Mesa, Arizona 85211-1466

Audit, Finance & Enterprise Committee
June 16, 2011
Attachment 4
Page 1 of 3

Date: June 9, 2011
To: Audit, Finance & Enterprise Committee
From: Jennifer Ruttman, City Auditor
Subject: Proposed Audit Plan for FY 2011/2012

Attached for your review is the Audit Plan proposed by the City Auditor's Office for FY 2011/2012. This plan will be presented for the Committee's approval on June 16, 2011.

The Audit Plan is developed based on a combination of many factors, including but not limited to the following:

- Requests and/or suggestions made by the Mayor, other City Councilmembers, the City Manager and/or members of the Executive Management Team.
- Federal and/or state mandates.
- Risk assessments, which include consideration of:
 - Prior audit history or lack thereof.
 - Existing internal control systems.
 - Complexity of operations.
 - Significant changes in operations or organizational structure.
 - Technological advances or challenges.
 - Regulation levels (highly regulated vs. unregulated activities).
 - Cash handling volume and number of locations.
 - Impact of potential findings on public perception.
 - Activities most commonly susceptible to fraud.

Please feel free to contact me if you have any questions about the proposed Audit Plan or the audit planning process.



20 E Main St Suite 820
 PO Box 1466
 Mesa, Arizona 85211-1466

mesaaz.gov

Audit, Finance & Enterprise Committee
 June 16, 2011
 Attachment 4
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**Audit Plan
 Fiscal Year 2011/2012**

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 2011/2012

Audit Subject	Initial Objectives
Fire – Emergency Management	<ul style="list-style-type: none"> Evaluate the Fire Department's use of grants for Emergency Management purposes, to verify compliance with grant requirements and determine whether adequate controls are in place over expenditures and inventory.
Police – RICO Funds	<ul style="list-style-type: none"> Evaluate the Police Department's use of RICO funds, to verify compliance with statutory and other requirements, and determine whether adequate controls are in place.
PRCF – Cemetery	<ul style="list-style-type: none"> Evaluate the adequacy of internal controls related to revenues, inventory, and other resources.
Financial Services – Decentralized Banking	<ul style="list-style-type: none"> Evaluate the adequacy of internal controls related to City bank accounts managed outside of the Accounting Division.
DMA	<ul style="list-style-type: none"> Verify compliance with contract terms.
Code Compliance	<ul style="list-style-type: none"> Verify compliance with CDBG funding requirements. Identify best practices and research potential alternative strategies and/or funding models.
Museums	<ul style="list-style-type: none"> Evaluate the adequacy of internal controls related to funding, special programs, conflicts of interest, cash handling, etc.
Special requests	<ul style="list-style-type: none"> Special requests by the City Council or City Manager may require immediate attention and may supersede a scheduled audit.
<i>Other Audits (as time permits):</i>	
ITD – Disaster Recovery	<ul style="list-style-type: none"> Perform an analysis of the current risk environment; reconcile to ITD's disaster recovery plans, identifying any significant gaps.
Fire – Prevention	<ul style="list-style-type: none"> Evaluate the adequacy of internal controls related to the management of fees and fee-based services.
Citywide – Building Access/Security (C-Cure)	<ul style="list-style-type: none"> Determine whether access to City facilities is effectively managed and determine whether adequate internal controls are in place.

On-Going Audits from 2010/2011 Audit Plan

Audit Subject	Initial Objectives
Citywide – Use of Temporary Labor and Personal Services Contracts	<ul style="list-style-type: none"> Evaluate the use of temporary agency workers and personal services contractors citywide for compliance with applicable policies, regulations, and contract terms. Verify that adequate controls are in place and operating effectively to ensure the costs associated with the use of temporary agency workers and personal services contractors are reasonable and appropriately managed.
Citywide – Use of State Contracts and Cooperative Agreements	<ul style="list-style-type: none"> Verify that adequate controls are in place and operating effectively to ensure that state contracts and cooperative agreements are used only when they provide the best value for the City.
Fleet Services – Fuel Management & Procurement	<ul style="list-style-type: none"> Evaluate the processes used by Fleet Services to procure and manage fuel.



Audit, Finance & Enterprise Committee Report

Date: June 16, 2011
To: Audit, Finance & Enterprise Committee
Through: Patricia Sorensen, Assistant to the City Manager
From: Ed Quedens, Business Services Director
Mickey Tait, Tax Administrator
Subject: Amendments to the Mesa Tax Code
Citywide

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.

1. Medical Marijuana (Ordinance Section 1)

Background

Currently, the sale of illegal drugs is subject to the City's Retail Sales Transaction Privilege (Sales) tax under Mesa Tax Code (MTC) Section 5-10-460 as these drugs cannot meet the definition of "prosthetic" as being prescribed by a physician.

With the passage of Proposition 203 in 2010, also known as the Arizona Medical Marijuana Act, changes have been adopted by the Municipal Tax Code Commission to clarify the tax treatment of medical marijuana. Such sales have been deemed taxable by the Arizona Department of Revenue under State statute. Because the language in the Model City Tax Code is slightly different than that of the State, this has led to the need for the proposed changes in order to further clarify that medical marijuana is also taxable at the city level.

Discussion

Section 1 of this ordinance would result in the adoption of changes made to the Mesa Tax Code (MTC), which have been approved by the Municipal Tax Code Commission on April 29, 2011. All cities in the State are adopting these changes.

There are three changes to existing definitions in MTC 5-10-100, along with one

new definition being added to this section.

“Food”

MTC Section 5-10-100: Clarifying that the definition of the term “Food” does not include edible products infused with medical marijuana. This change in the “food” definition follows the similar exclusion of alcohol and tobacco products.

“Prosthetic”

MTC Section 5-10-100: Clarifying that the definition of the term “Prosthetic” does not include medical marijuana. This change eliminates any controversy over the interpretation of “recommended” versus “written certification” and whether or not medical marijuana is a “drug or medicine” by clearly excluding medical marijuana from the definition, thus clarifying such sales as taxable.

“Medical marijuana”

MTC Section 5-10-100: Creating a new definition for the phrase “medical marijuana” referring to the existing definitions of “marijuana” and “medical use” in Arizona Revised Statutes (A.R.S.) 36-2801.

“Speculative Builder”

MTC Section 5-10-100: Housekeeping change to correct the numbering system making it uniform with the rest of the tax code.

These changes have a retroactive effective date of June 1, 2011 to align it with the original effective date as adopted by the Municipal Tax Code Commission.

Fiscal Impact

Based upon the news release issued by the Arizona Attorney General on January 26, 2011, the taxes on medical marijuana are estimated to increase revenues for the State of Arizona approximately \$40 million per year, based upon the Phoenix sales tax rate. Breaking this down into the estimated 124 dispensaries allowed in the State, for City tax purposes the estimated annual revenue increase will be approximately \$60,700.00 per dispensary. Based upon information obtained from Planning and Zoning, Mesa is projected to have up to 5 dispensaries. This would yield an estimated annual revenue increase of \$303,500.00.

2. Solar Energy Devices (Ordinance Section 2)

Background

House Bill 2700 changed the sunset date for Prime Contractors in A.R.S. 42-5075.B.14 for installed solar energy devices, extending the deadline from January 1, 2011 to January 1, 2017. A technical correction adding reference to the Arizona Revised Statutes is also being added to the exemption for development fees in each section.

Discussion

Section 2 of this ordinance would result in the adoption of changes made to the Mesa Tax Code (MTC), which have been approved by the Municipal Tax Code Commission on December 18, 2010. All cities in the State are adopting these changes.

The three construction contracting tax classifications affected are Construction Contractors; MTC Sections 5-10-415, Speculative Builders; MTC Sections 5-10-416, and Owner-Builders who are not speculative builders; MTC Sections 5-10-417. These sections have the same language and these changes merely align the sunset date in the Mesa Tax Code with the State statute as well as making reference to A.R.S in the appropriate section that refers to development fees.

The changes in section 2 of this ordinance have a retroactive effective date of July 29, 2010 to align it with the original effective date of HB2700 as adopted by the Municipal Tax Code Commission.

Fiscal Impact

Based upon current city tax licenses of solar contractors, the estimated loss in tax revenues would be approximately \$30,000.00 annually based upon FY 10/11 reported solar energy device deductions currently claimed on tax returns.

3. Real Property Rentals Between Affiliated Corporations (Ordinance Section 3)

Background

House Bill 2510 enacted a State preemption of Municipal tax during the 2010 Regular legislative session which prohibits cities and towns from taxing commercial real property rentals between two corporations in a parent and subsidiary corporation relationship in which the lessor corporation owns or controls at least 80% of the lessee corporation.

Discussion

Section 3 of this ordinance would result in the adoption of changes made to the Mesa Tax Code under Section 5-10-445(s), in accordance with the municipal tax preemption in A.R.S. 42-6004.A.11 and approved by the Municipal Tax Code Commission on December 18, 2010. All cities in the State are adopting these changes.

The changes in section 3 of this ordinance have a retroactive effective date of July 29, 2010 to align it with the original effective date of HB2510 as adopted by the Municipal Tax Code Commission.

Fiscal Impact

It is difficult to quantify the overall fiscal impact from adoption of this ordinance without a detailed analysis of ownership records of all potential lessors in order to obtain an accurate projection. However, based upon a review of licensed lessors of real property in FY 09/10, who upon a quick review may fit this tax exemption scenario, the fiscal impact caused by this Arizona legislative city tax preemption is estimated to have a revenue loss of approximately \$70,000 annually.

4. Use Tax Exemption - School Districts and Charter Schools (Ordinance Section 4)

Background

SB1196 enacted a State preemption of Municipal tax during the 2009 Regular legislative session which prohibits cities and towns from taxing the storage, use, or consumption of tangible personal property by a school district or charter school.

Discussion

Section 4 of this ordinance would result in the adoption of changes made to the Mesa Tax Code under Section 5-10-660(II), in accordance with the municipal tax preemption in A.R.S. 42-6004.F and approved by the Municipal Tax Code Commission on December 18, 2010. All cities in the State are adopting these changes.

This change would affect any purchases made by a school district or charter school made to an out-of-state vendor upon which no tax was paid at the time of purchase. Any purchases by a school district or charter school from local vendors would still be subject to the transaction privilege tax which is collected and paid by the local vendor making the sale.

The changes in section 4 of this ordinance have a retroactive effective date of September 30, 2009 to align it with the original effective date of SB1196 as adopted by the Municipal Tax Code Commission.

Fiscal Impact

The current tax system does not separately track use tax remitted to the City. However, since this tax preemption is only upon the out-of-state purchases made by a school district or charter school, the revenue impact should be minimal.

Alternatives

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