



## AUDIT, FINANCE & ENTERPRISE COMMITTEE

June 2, 2014

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 2, 2014, at 3:30 p.m.

### COMMITTEE PRESENT

Dave Richins, Chairman  
Terry Benelli

### COMMITTEE ABSENT

Scott Somers  
Christopher Brady, Ex Officio

### STAFF PRESENT

Debbie Spinner  
Alex Deshuk

Chairman Richins excused Committee member Somers from the entire meeting.

#### 1. Items from citizens present.

There were no items from citizens present.

#### 2-a. Hear a presentation, discuss and accept the City's Comprehensive Annual Financial Report (CAFR) and Single Audit Reports for Fiscal Year Ended June 30, 2013.

Finance Director Irma Ashworth introduced Sandy Cronstrom, a partner with CliftonLarsonAllen, LLP, the City's external audit firm, who was prepared to address the Committee.

Ms. Ashworth displayed a PowerPoint presentation (**See Attachment 1**) and provided a brief overview of the City of Mesa's Fiscal Year 2013 Comprehensive Annual Financial Report (CAFR).

Ms. Ashworth reported that the CAFR provides a detailed presentation of the City's financial and economic condition and explained that an unmodified report was issued. She noted that in the past, the term "unqualified" had been used, but stated that due to changes in auditing standards, the term "unmodified" is now used instead. She also remarked that the financial statements are prepared following Generally Accepted Accounting Principles (GAAP) and added that the City complies with the Governmental Accounting Standards Board (GASB).

Ms. Ashworth indicated that the City of Mesa has \$3.7 billion in total assets, including \$2.3 billion in total liabilities, resulting in a combined net position of \$1.4 billion.

Ms. Ashworth, in addition, discussed the City's cash balances as of June 30, 2013. (See Page 4 of Attachment 1) She noted, for example, that the "Cash with Trustee and Fiscal Agents" category is comprised of the monies that the City will use to make its debt payments to the US Bank, the City's trustee, prior to June 30<sup>th</sup>; funds from the Highway Project Advancement Notes (HPAN); and funds from the Excise Tax Obligations. She advised that when the City issued those bonds, the funds remained with the fiscal agent.

Ms. Ashworth further reviewed a document titled "Citywide Long-Term Debt." (See Page 5 of Attachment 1) She remarked that the Revenue Bonds have the largest amount of principal outstanding, amounting to \$978,160,000. She also stated that the General Obligation (G.O.) Bonds are paid, in part, by the General Fund and also revenues generated by Mesa's secondary property tax. She noted that in 2013, the Arizona Department of Transportation (ADOT) was able to pay back the City earlier than anticipated on the HPAN Notes that the City issued, which enabled Mesa to call some of the bonds in August, thereby redeeming \$20 million in bonds. She added that staff anticipates receiving another \$25 million from ADOT this month and said that the City will redeem additional bonds on July 1<sup>st</sup>.

Responding to a series of questions from Chairman Richins, Ms. Ashworth clarified that the Excise Tax Obligations relate to the bonds issued with the fiscal agent. She explained that the funds were used for the construction of the Chicago Cubs' Stadium, as well as renovations of Hohokam Stadium for the Oakland A's. She also advised that the City's Pinal County land sale proceeds, which total approximately \$20 million, will be reserved. She said that in 2016 or 2017 when the City can call the bonds, those funds will be used to redeem the bonds.

Ms. Ashworth displayed two graphs illustrating Total Citywide Assets and Total Citywide Liabilities. (See Pages 6 and 7 respectively of Attachment 1)

In response to a question from Chairman Richins, Ms. Ashworth explained that Governmental activity would consist of the General Fund and all governmental funds (i.e., debt service fund, special revenue fund and capital project fund). She stated that Business-Type activity would include all enterprise funds combined into one fund.

Ms. Ashworth referred to a chart titled "Governmental Fund Balance," which illustrates the General Fund and All Other Funds for 2013 as compared to 2012 with respect to non-spendable, restricted, committed and unassigned funds. (See Page 8 of Attachment 1)

Responding to a question from Committeemember Benelli, Ms. Ashworth provided examples of the above-listed categories of funds as follows: non-spendable would equate to pre-paid monies that cannot be spent; restricted funds are monies restricted by external sources (i.e., regulations, voter-approved monies); committed funds are dollars committed by the Council; and unassigned funds do not meet one of the above-listed categories.

Ms. Cronstrom addressed the Committee and reported that in addition to the financial statement audit that her firm conducts at the City of Mesa, it also performs a single audit. She explained that the auditors select federal programs for testing and also conduct compliance work as well. She stated that for 2013, the auditors selected seven of the City's federal programs and visited the different departments. She noted that the auditors reviewed all of the federal requirements and tested for such requirements. She indicated that the auditors also looked for internal controls over some of those processes to ensure, for instance, that a payroll transaction was

properly coded to the grant and approved by someone to verify that it was an appropriate transaction.

Responding to a question from Chairman Richins, Ms. Cronstrom clarified that an example of an internal control would be a department manager reviewing and initialing an employee's timesheet to ensure that the hours attributed to working on a grant were, in fact, proper and accurate.

Ms. Cronstrom commented that at the conclusion of the audit, her firm issued seven findings related to the financial statement and eight findings with regard to the compliance portion of the document. She said that she would be happy to review each of the findings or simply respond to any questions the Committee might have.

In response to a question from Chairman Richins, Ms. Cronstrom verified that the number of findings was higher this year as compared to past audits.

Ms. Ashworth further clarified that the higher number of findings was due, in part, to staff's efforts to convert assets and balances from the Legacy system into the new financial system. She explained that even after staff performed the conversion, the auditors found additional "cleanup items" to correct. She pointed out that with the Legacy system, staff could only reach a certain level of detail, whereas in the new system, everything is very transparent.

Ms. Ashworth also reported that in prior years, certain staff members would prepare the CAFR and journal entries, but noted that unfortunately, that knowledge was not passed down to existing staff members. She stated that as a result, staff participated in an extensive training process in order to learn how to prepare the CAFR.

Responding to a question from Chairman Richins, Ms. Ashworth explained that in the past, two retired City employees would come into the office on a temporary basis and prepare the CAFR. She explained that staff assisted those individuals, but did not necessarily understand why certain tasks were performed. She noted that through their training, staff has gained a better understanding of the process.

Chairman Richins commented that the City was "late" this year in the completion of the CAFR. He noted that it would appear that the training of staff, as well as staff and the auditors having a more transparent body of documents to examine were the reasons for such a delay.

Ms. Ashworth confirmed Chairman Richins' statement and added that the implementation of the new financial system also played a role in the delay.

It was moved by Committee member Benelli, seconded by Chairman Richins, to recommend that the City's Comprehensive Annual Financial Report (CAFR) and Single Audit Reports for Fiscal Year Ended June 30, 2013 be forwarded on to the full Council for acceptance.

Chairman Richins declared the motion carried unanimously by those present.

Chairman Richins thanked everyone for the presentation.

2-b. Hear a presentation, discuss and make a recommendation on the proposed Audit Plan for FY 2014/15.

City Auditor Jennifer Ruttman addressed the Committee and discussed the proposed Audit Plan for FY 2014/15. (**See Attachment 2**) She stated that she was seeking the Committee's input with respect to the Plan before it is forwarded on to the full Council for approval.

Ms. Ruttman reported that in order to determine which audits should be included on the Plan, her office conducts a high-level risk assessment on a Citywide basis; that the assessment includes 15 to 20 criteria, which are weighted and ranked; that such data is used in conjunction with other information that is known about a particular department, such as whether it is already being audited by an external agency; that Councilmembers, the City Manager or Department Directors may request that an audit be performed; and that based on her staff's experience over the prior 12 months, they may determine that it would be appropriate to conduct a more thorough analysis of certain departments.

Ms. Ruttman briefly highlighted the New Scheduled Audits for FY 2014/15 and the initial objectives for such audits. (See Page 1 of Attachment 2)

In response to a question from Committeemember Benelli, Ms. Ruttman clarified that with respect to the proposed audit related to ITD – Procurement and Inventory Management Processes, the audit would consist of a control review, including the entire system. She stated that staff would like to determine "how the process works" as opposed to looking at an individual item.

Manager of Innovation and Technology Alex Deshuk pointed out that a number of City departments have decentralized procurement, with ITD being one of the largest. He stated that it was appropriate that the department be audited externally over City procurement as a separate entity.

Ms. Ruttman remarked that the remainder of the Audit Plan consists of audits that are currently in progress, but will not be completed by the end of the fiscal year. She noted, however, that there are a few projects that are substantially completed, but have yet to be reported on to the Committee. She said that those audits will not be included on the list for the current fiscal year, nor on the proposed Audit Plan, since they will not require staff resources in the coming fiscal year.

Ms. Ruttman, in addition, highlighted the Follow-Up Audits (See Page 2 of Attachment 2), which are generally performed after one year in order to verify that the corrective action plans agreed to in response to the initial audit have been implemented. She stated that her staff also conducts other activities such as Citywide Cash Counts; offers assistance to other City departments; monitors the City's Fraud & Ethics Hotline investigations; and responds to special consulting requests from the Council, the City Manager or Department Directors.

Responding to a question from Committeemember Benelli, Ms. Ruttman explained that over the past few years, the number of complaints that staff has received on the Fraud & Ethics Hotline has declined. She suggested that it may be due, in part, to a lack of awareness of the service and said that her office intends to boost such awareness through future presentations of the hotline.

Ms. Ruttman stated that pending the Committee's approval, she would like to add one more item to the proposed Audit Plan, which would be a scheduled audit of the Housing and Community Development Department to evaluate internal controls over compliance with regard to the Community Development Block Grant (CDBG) program. She noted that this item would be added to the list forwarded on to the full Council for approval.

Responding to a question from Chairman Richins, Ms. Ruttman explained that the type of response her office receives from City departments when audit findings are issued and the departments are required to implement corrective actions plans is varied. She stated that sometimes a problem is responded to immediately and at other times, when a corrective action plan is put in place, it does not receive the attention that her office might hope that it would. She also commented that oftentimes when her staff conducts follow-up reviews, they will see that the corrective action plan has not been implemented. She indicated that she would hope that the Council could express the expectation to City management that the implementation of the corrective action plans should become a priority and that the departments follow through in that regard.

Chairman Richins pointed out that the City Auditor was made a Charter Officer by the Mayor and Council and approved by Mesa voters. He asked that City Manager Christopher Brady be advised of the importance of the departments responding to the City Auditor's findings and addressing any issues in a timely manner. He said that he would be very disappointed to see a Department Director "drag their feet" insomuch that it would surprise him if that person retained his or her job through the lack of cooperation.

It was moved by Committeemember Benelli, seconded by Chairman Richins, to recommend that the proposed Audit Plan for FY 2014/15 be forwarded on to the full Council for approval.

Chairman Richins declared the motion carried unanimously by those present.

2-c. Hear a presentation, discuss and make a recommendation on the following audits:

1. Mesa Cemetery – Follow-up

City Auditor Jennifer Ruttman reported that the follow-up audit of the Mesa Cemetery (**See Attachment 3**) revealed that the majority of the corrective action plans have been implemented. She noted, however, that improvements to the sales agreement billing process could not be achieved in the manner proposed in the Parks, Recreation and Commercial Facilities (PRCF) Department's audit response. She explained that the Advantage ERP system was unable to maintain customer balances, apply interest and invoice customers for payment plans for the purchase of grave sites. She added that staff is currently utilizing a manual process in order to accomplish such tasks.

2. Use of Temporary Labor and Independent Contractors – Follow-up

Ms. Ruttman remarked that this was a follow-up review of the initial audit of the Citywide use of temporary agency labor and independent contractors. (**See Attachment 4**) She explained that 12 departments participated in the audit, all of which created specific corrective action plans. She stated that generally speaking, most of the critical issues were addressed, although in certain instances, problems occurred due to a lack of internal controls. She pointed out that it

was a good learning opportunity for the various departments to understand what was necessary in order to resolve such problems.

Ms. Ruttman further indicated that as a result of the follow-up review and her office working with the various departments, most of the issues have been resolved. She remarked that although such action occurred after the follow-up review commenced, she was satisfied that the corrective action plans were implemented and the risks mitigated.

### 3. AZ Museum of Natural History – Follow-up

Ms. Ruttman discussed the follow-up review of the February 2013 audit of the Arizona Museum of Natural History (**See Attachment 5**) and reported that most of the corrective action plans have been substantially implemented. She explained that such efforts have taken some time, which management included in its response to the audit, and her office was aware of. She pointed out that when a department responds to an audit recommendation, it was important for management to be realistic with respect to what a department intends to accomplish and how long it might take to do so. She said that such efforts are taken into consideration when the follow-up review is conducted.

Ms. Ruttman highlighted the report concerning the follow-up review and indicated that some of the corrective action plans are in the process of being implemented, while others have yet to be implemented. (See Pages 2 through 6 of Attachment 5) She acknowledged the Museum's efforts thus far and added that the item related to background checks for volunteers who are in contact with minors has been implemented.

Responding to a question from Committee member Benelli, Museum Administrator Tom Wilson clarified that relative to the two agreements between the Museum Foundation and the Guild, staff wanted to complete one agreement and use it as a model for the other agreement. He stated that the agreement with the Guild has been completed and anticipates that the Museum Foundation's agreement will be finalized by the end of the month. He added that the role of the Museum Foundation is to raise money for the institution, while the Guild is comprised of the Museum volunteers. He also commended Ms. Ruttman and her staff for the positive manner in which they conducted the audit with the Museum.

### 4. Downtown Mesa Association – Follow-up

Ms. Ruttman reported that this item was a follow-up review of the City's agreements with the Downtown Mesa Association (DMA). (**See Attachment 6**) She explained that only one corrective action plan was not completed due to some miscommunication, which resulted in the DMA's financial procedures for collecting City money for parking not being reviewed by the City's Financial Services Department until after the start of the review. She said that such efforts are underway at this time.

Chairman Richins commented that the DMA is a private organization and receives funding outside of what the City shares with the entity for the management of the downtown area.

Ms. Ruttman verified that the initial audit included the Parking and Special Improvement District #228 (SID) Agreements between the City and the DMA to determine whether both entities were operating in compliance with the terms of the agreements. She advised that when the DMA

collects revenues, it does so on the City's behalf, after which time such revenues are remitted to the City. She added that the City has an annual contract with the DMA, wherein the organization receives funding from the City.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 4:10 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 2<sup>nd</sup> day of June, 2014. 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

pag  
(attachments -6)

# OVERVIEW OF FISCAL YEAR 2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Audit, Finance and Enterprise Committee

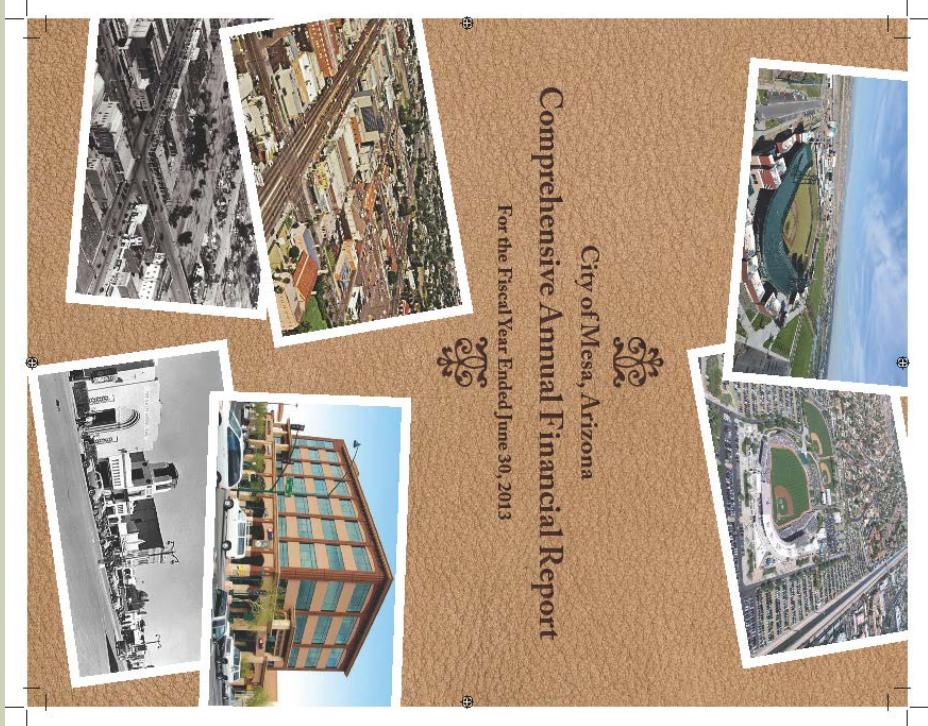
June 2, 2014

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

  
City of Mesa, Arizona



- Provides a detailed presentation of the City's financial and economic condition
- Unmodified report issued

- Follows Generally Accepted Accounting Principles (GAAP)
- Complies with Governmental Accounting Standards Board (GASB)

# CITYWIDE FINANCIAL HIGHLIGHTS

- Total Assets of \$3.7 billion
- Total Liabilities of \$2.3 billion
- Combined net position of \$1.4 billion

# CASH BALANCES AS OF JUNE 30, 2013

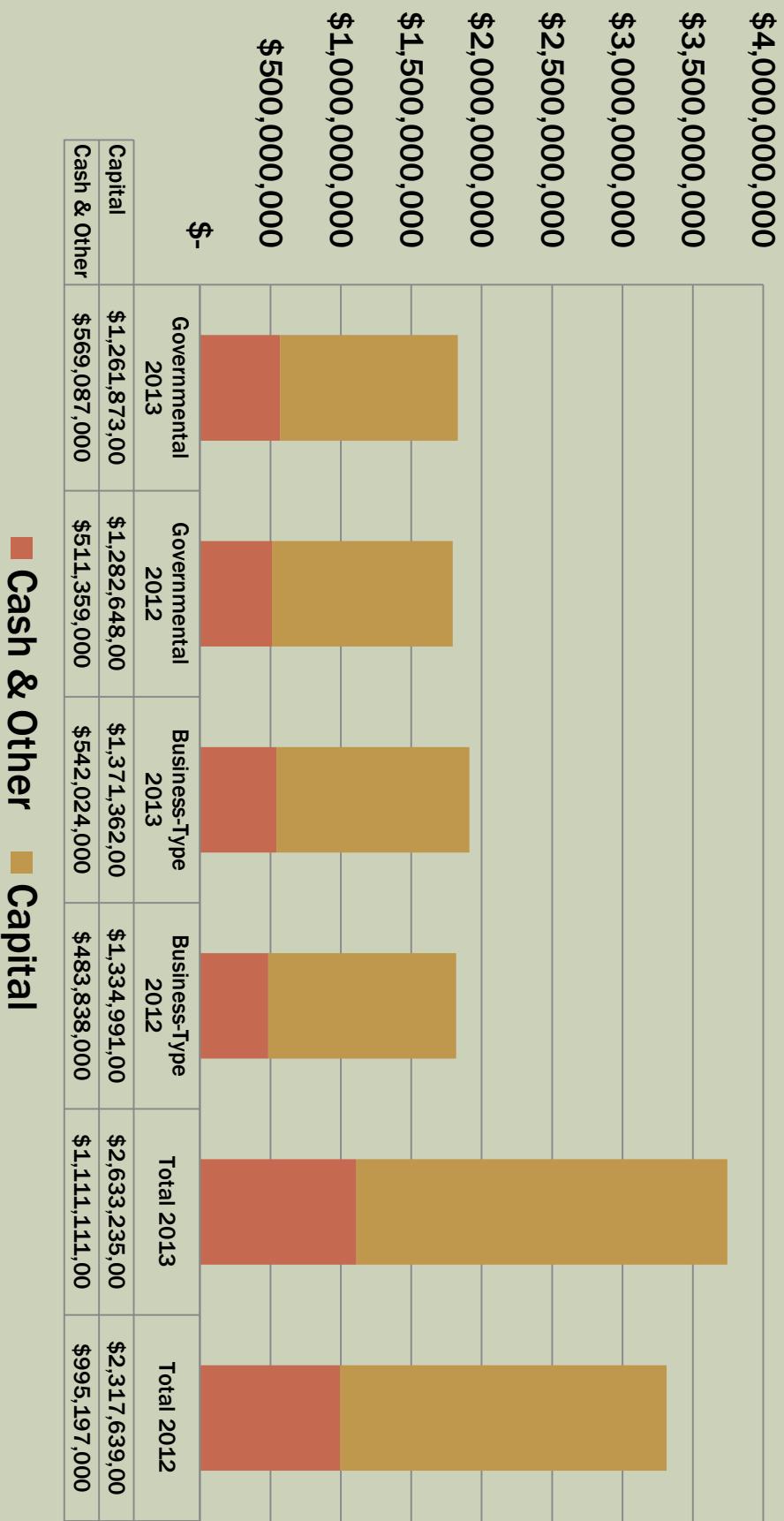
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Cash & Repurchase Agreement	\$ 21,471,129
Investment in Local Govt Investment Pool	80,544,774
Cash with Trustee and Fiscal Agents	232,850,476
Long-Term Investments	<u>264,504,841</u>
Total Pooled Cash and Investments	\$599,371,220

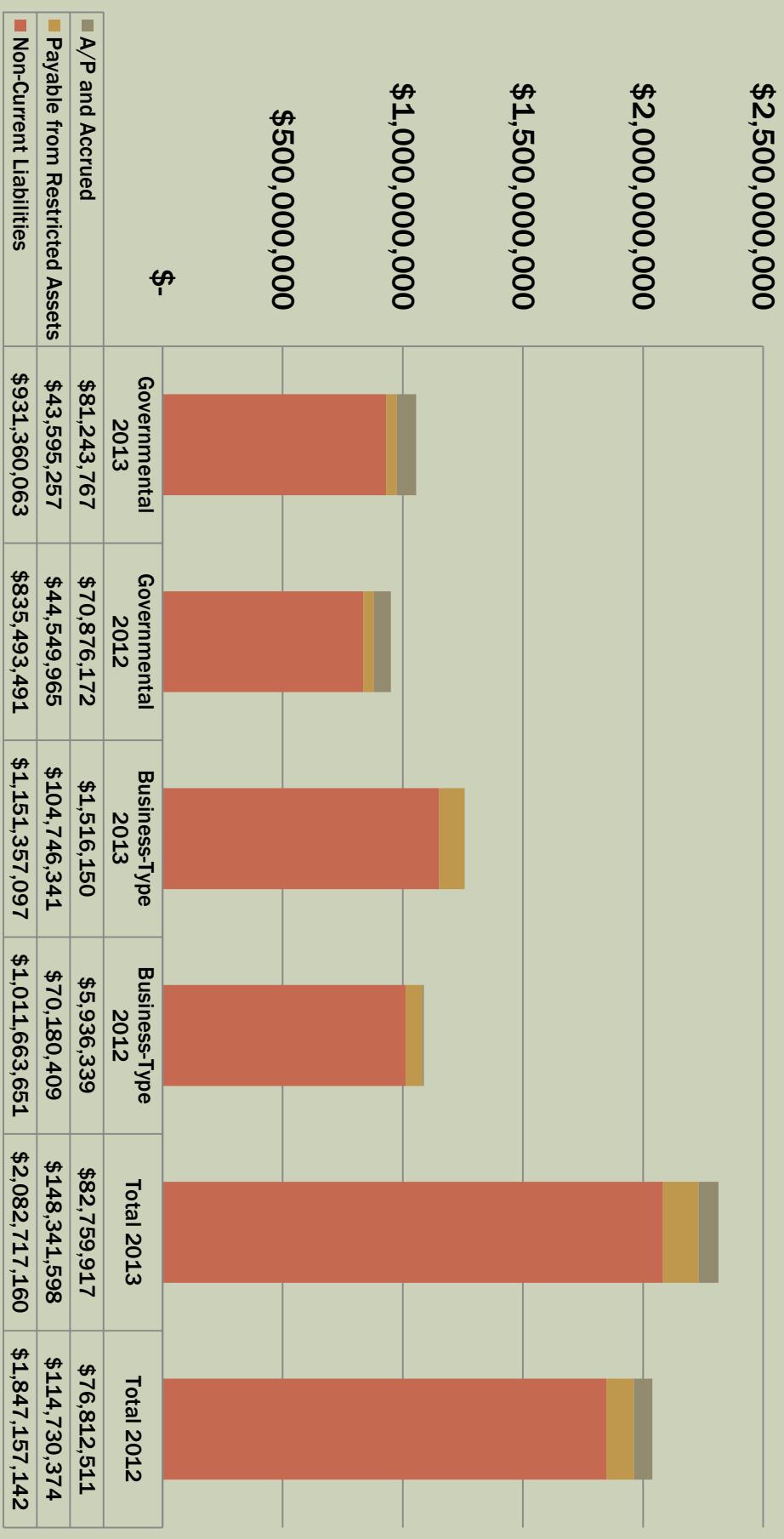
# CITYWIDE LONG-TERM DEBT

Issue Type	Principal Outstanding	% of Total
General Obligation Bonds	\$ 325,570,000	19.8%
Highway User Revenue Bonds	114,650,000	7.0%
Revenue Bonds	978,160,000	59.6%
Excise Tax Obligations	94,060,000	5.7%
Special Assessment Bonds	4,318,000	0.3%
Community Facility District	2,712,000	0.1%
HPAN Notes Payable	<u>122,835,000</u>	7.5%
Total	<u>\$1,642,305,000</u>	100.0%

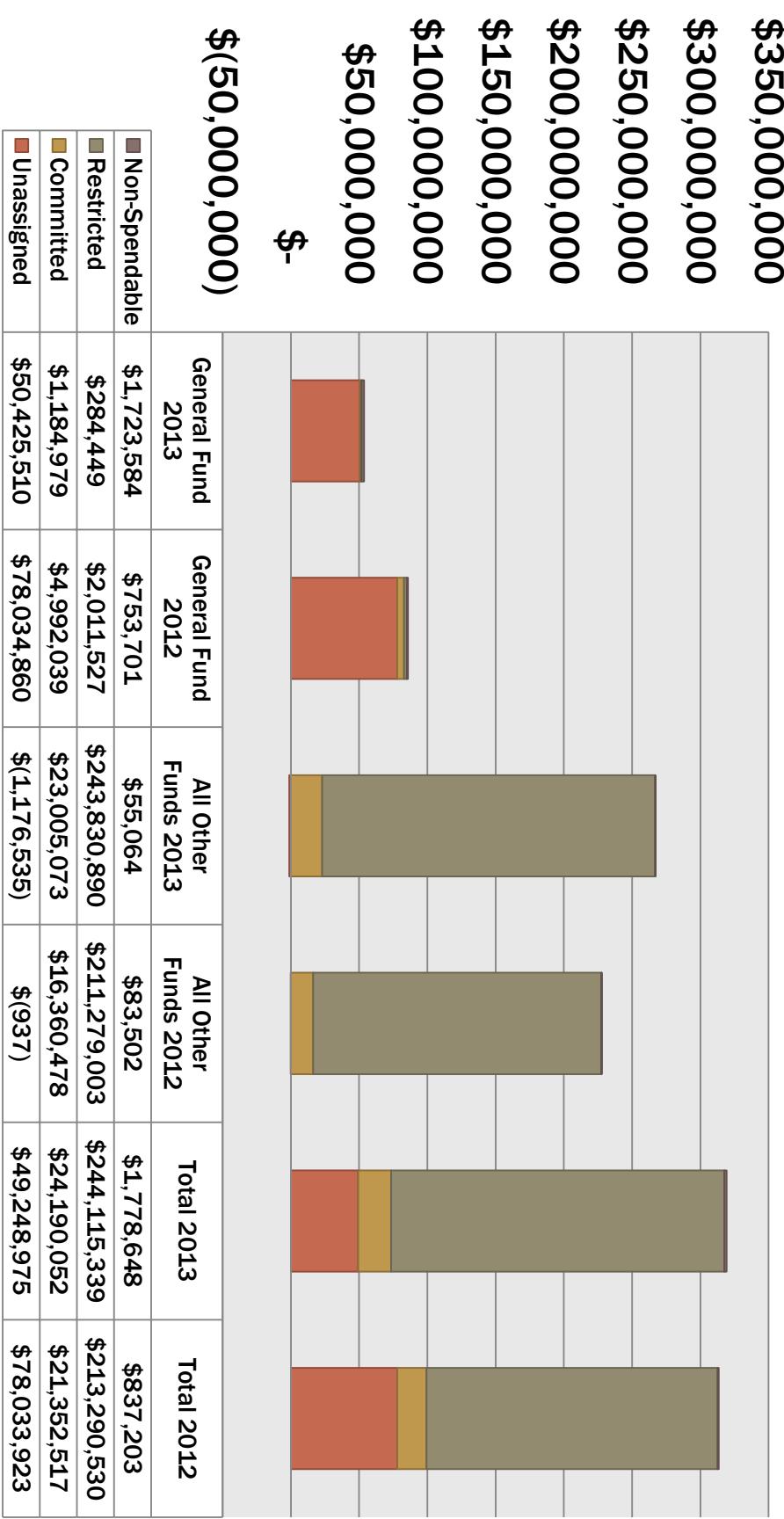
# TOTAL CITYWIDE ASSETS



# TOTAL CITYWIDE LIABILITIES



# GOVERNMENTAL FUND BALANCE



# Questions ?

Irma Ashworth  
Finance Director

[irma.ashworth@mesaaz.gov](mailto:irma.ashworth@mesaaz.gov)

(480) 644-2605

**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 2014/2015**

<b>Audit Subject</b>	<b>Initial Objectives</b>
Communications	<ul style="list-style-type: none"> <li>Evaluate the effectiveness of internal controls related to procurement and inventory management.</li> </ul>
Development & Sustainability – Building Safety Division	<ul style="list-style-type: none"> <li>Evaluate internal controls related to the calculation and collection of fees and charges.</li> </ul>
Engineering/CIP – Cubs Stadium Project	<ul style="list-style-type: none"> <li>Post-construction financial review.</li> </ul>
Facilities Maintenance	<ul style="list-style-type: none"> <li>Evaluate internal controls related to the efficiency and effectiveness of facilities maintenance services.</li> </ul>
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>
Fleet Services	<ul style="list-style-type: none"> <li>Objective(s) may include evaluation of internal controls, efficiency/effectiveness of maintenance services, cost allocation plans, customer service, or other aspects of Fleet Services operations, as determined by a preliminary risk assessment.</li> </ul>
Human Resources – Safety Services – Workers Compensation Program	<ul style="list-style-type: none"> <li>Determine whether internal controls related to workers compensation claims management are adequate to provide reasonable assurance that the program is operating in accordance with applicable policies, laws and best practices.</li> </ul>
ITD – Procurement and Inventory Management Processes	<ul style="list-style-type: none"> <li>Evaluate the effectiveness of internal controls related to procurement and inventory management.</li> </ul>
ITD – Other	<ul style="list-style-type: none"> <li>Objective(s) to be determined after preliminary risk assessment.</li> </ul>
Water Resources	<ul style="list-style-type: none"> <li>Objective(s) to be determined after preliminary risk assessment.</li> </ul>

**On-Going Audits from the FY 2013/2014 Audit Plan**

<b>Audit Subject</b>
City Attorney – Property & Public Liability Trust Fund
City Manager – Public Defender Contracts
Financial Services/Engineering/Transit – Light Rail Project Cost Recovery
Library – Technology
Police – Off-Duty Employment Program
PRCF – Aquatics

# Fiscal Year 2014/2015

## **Follow-Up Reviews Scheduled in 2014/2015:**

<b>Audit Subject</b>	<b>Initial Objectives</b>
Animal Control	
Surplus Property Disposal	
MFMD Fire Prevention Division	
City Manager – Public Defender Contracts	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).

#### **Other Activities:**

Activity	Description
Citywide Cash Counts	All cash handling sites citywide are subject to unannounced audits at any time.
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

Christopher Brady, City Manager

Date

Dave Richens, Audit, Finance & Enterprise Committee Chair Date

Alex Finter, Mayor Date



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mesaaz.gov

Audit, Finance & Enterprise  
June 2, 2014  
Attachment 3  
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Date: April 8, 2014  
  
To: Audit, Finance and Enterprise Committee  
  
From: Jennifer Ruttman, City Auditor  
  
Subject: Follow-up Review – Audit of Mesa Cemetery  
  
cc: Mayor and Council  
Kari Kent, Deputy City Manager  
Marc Heirshberg, PRCF Director

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of our audit of our audit of the City of Mesa Cemetery. The final report is attached and will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. Please feel free to contact me with any questions or concerns.

## FOLLOW-UP REVIEW

## CITY AUDITOR

**Report Date:** April 8, 2014  
**Department:** Parks, Recreation & Commercial Facilities (PRCF)  
**Subject:** City of Mesa Cemetery  
**Lead Auditor:** Karen Newman, Sr. Internal Auditor

### **OBJECTIVE**

The objective of this review was to determine whether the Parks, Recreation & Commercial Facilities (PRCF) Department has effectively implemented the action plans presented in their responses to our May 2013 audit of the City of Mesa Cemetery.

### **SCOPE & METHODOLOGY**

To accomplish our objectives, we interviewed key personnel, reviewed financial data from January to December 2013 and evaluated internal controls related to the Agreement of Sale process.

### **BACKGROUND**

On May 2, 2013, we issued a report on our audit of the City of Mesa Cemetery. The objective of that audit was to evaluate the adequacy of the Cemetery's internal controls related to revenues, inventory, and other resources.

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

1. Improve the security, accuracy and reliability of the database used by the Cemetery to record transactions.
2. Implement controls over voided invoices.
3. Improve the billing process for sales agreements.

The department responded with a corrective action plan for each of the recommendations.

### **CONCLUSION**

The majority of the corrective action plans have been implemented. However, improvements to the sales agreement billing process could not be achieved in the manner proposed in the department's audit response. This is primarily due to the inability of the Advantage ERP system to maintain customer balances, apply interest, and invoice customers in a manner that meets the business needs of the department. As an alternative, staff is now implementing a manual process to accomplish these tasks.

A complete list of the original recommendations, the department's planned corrective actions, and our findings regarding their implementation status at the time of this review, is presented in the attached [Appendix](#).

## APPENDIX

= Implemented

= In Progress

= Not Implemented

### Corrective Action

### Implementation Status

#### CAP#1: Cemetery database needs improvement

**Recommendation 1-1:** Management should work with the City's Information Technology Department to improve the security, accuracy and reliability of the Cemetery's database. In addition, to the extent possible and practical, alternative options for recording transactions, maintaining customer accounts, and managing grave inventory should be explored.

**Management Response:** PRCF has been actively working with ITD to determine a long-term solution for an improved cemetery management system. Previous evaluations of external software have been cost prohibitive but will continue to be evaluated as technology and systems continue to improve. In the interim basis ITD has moved the Cemetery database from an Access Program to a SQL Server based platform, this has resulted in improved security controls, the ability to backup data easily and on a more routine basis (nightly). ITD was able to make these changes without disturbing the user interface resulting in no additional training or increased opportunities for error by users. Testing is currently underway and anticipated to be finalized by 6/1/13. As stated earlier PRCF along with ITD will continue to evaluate "off the shelf" software solutions vs. building a new web-based data system internally.

#### **Implemented**

No additional issues with the Cemetery database have been reported since the audit. Additionally, PRCF and ITD are currently working on purchasing a new Cemetery Management System.



#### CAP#2: Controls over voided invoices need improvement

**Recommendation 2-1:** Management should ensure that every voided invoice is properly approved and listed on the voided invoice log, and that a detailed explanation is provided. The invoice should also be noted as voided in the database.

**Management Response:** Cemetery staff has been reminded of and reviewed Management Policy #210, and the Cemetery Procedures Manual on how to properly void invoices and record them properly.

#### **Implemented**

All invoices that were voided in the database during the follow-up period were properly approved and listed on the voided invoice log with a detailed explanation.



**Recommendation 2-2:** PRCF Admin staff should periodically review the sequential numbering of invoices to ensure that all voided invoices have been properly recorded and reported.

**Management Response:** PRCF Administrative staff will review this process as part of our internal audit procedures to ensure accuracy.

#### **Implemented**

PRCF Admin staff processes ensured that all voided invoices reviewed during the follow-up were properly recorded and reported.



## APPENDIX

✓ = Implemented

◆ = In Progress

✗ = Not Implemented

### Corrective Action

### Implementation Status

#### CAP#3: Billing process for sales agreements needs improvement

**Recommendation 3-1:** Management should ensure that all customer balances are accurately recorded and managed in the Advantage financial system. Interest should be automatically calculated and applied to balances, billing should be automated, and payments should be accurately applied to customer accounts in a timely manner.

**Management Response:** PRCF continues to work with ITD and the CityEdge team to create an interface with Advantage that successfully and accurately records interests, generates invoices, etc. ITD has been made aware of this Audit Report and the need to address this interface.

#### In Progress

PRCF is currently working on an alternative process to ensure customer balances, interest and payments are accurately recorded and invoices are automatically generated.





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Audit, Finance & Enterprise  
June 2, 2014  
Attachment 4  
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Date: May 13, 2014

To: Audit, Finance and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Follow-up Review – Citywide Use of Temporary Labor and Independent Contractors

cc: Mayor and Council  
Kari Kent, Deputy City Manager  
John Pombier, Deputy City Manager  
Natalie Lewis, Asst. to the City Manager  
Tammy Albright, Housing & Community Development Director  
Harry Beck, Fire Chief  
Marc Heirshberg, PRCF Director  
Frank Milstead, Police Chief  
Cindy Ornstein, Arts & Culture Director  
Steven Wright, Public Information & Communications Director

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of our audit of the Citywide Use of Temporary Agency Labor and Independent Contractors. The final report is attached and will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. Please feel free to contact me with any questions or concerns.

## **FOLLOW-UP REVIEW**

## **CITY AUDITOR**

**Report Date:** May 13, 2014

**Department:** Citywide

**Subject:** Use of Temporary Agency Labor & Independent Contractors

**Lead Auditor:** Tami Steadman

### **OBJECTIVES**

The objectives of this review were to determine whether departments citywide have effectively implemented the corrective action plans presented in their responses to our 2012 audit of the use of temporary agency workers and personal services contractors; and to determine whether the associated risks have been effectively mitigated.

### **SCOPE & METHODOLOGY**

The follow-up scope included review of actions which were specifically proposed by departments in their responses to the original audit. We reviewed applicable policies, contracts, invoices and other payment documents; interviewed City staff members; reviewed supporting documents provided by the departments; and performed other testing and analyses as necessary to meet our objectives.

### **BACKGROUND**

In January 2012, we issued an audit report on the use of temporary labor and independent contractors citywide, which included 26 findings in 12 departments. While the report provided a general summary of our findings, specific recommendations designed to increase awareness and improve compliance were communicated directly to the individual departments. Additionally, we recommended that all department directors take steps to improve the level of due diligence and attention to detail exercised by staff when engaging in contracts for personal services. Each department agreed with the recommendations and responded with specific corrective action plans.

### **CONCLUSION**

In our opinion, with regard to the use of independent contractors, overall policy compliance has improved and the most significant risks have been mitigated. However, some internal control weaknesses have remained unaddressed, including a lack of clear guidance for staff and inconsistent management oversight in some areas. We found that 6 of the 12 departments involved with the original audit had satisfactorily implemented their respective corrective action plans. Of the remaining 6 departments, 4 had partially implemented their action plans and 2 had taken essentially no additional action since the audit report was issued. In areas where corrective actions were not implemented, or the identified risks were not effectively mitigated, some of the same findings identified in the original audit have reoccurred.

With regard to temporary agency workers, it is our opinion that the centralized monitoring provided by the Human Resources Department (HR) for all but a few areas, remains the

most effective means of ensuring compliance with the various requirements. In areas not monitored by HR, there is an increased incidence of noncompliance with contract terms, City policies, and other requirements. Therefore, we have encouraged departments to work closely with HR when using temporary workers, and we have encouraged HR to be as proactive as possible on these issues.

Lastly, we continue to observe confusion and a general lack of awareness among City staff with regard to the requirements of Management Policy 332 – Use of Independent Contractors; and in our opinion, this is due in part to a lack of clarity and guidance within the policy. We have asked the City Manager's office to review and revise this policy to provide additional and clearer guidance, and we have recommended that the City's centralized Contracts Administrator take a more active role in monitoring and enforcing compliance. Once the policy has been updated, additional training or other assistance related to the use of independent contractors should be offered citywide.

## **FINDINGS & RECOMMENDATIONS**

The following is a summarized list of findings from this follow-up review. For a detailed list of findings and recommendations, along with responses received from the respective department directors, please see the attached [Appendix](#).

### Arts & Culture - Mesa Arts Center (MAC)

- Payments to a temporary agency exceeded the contracted rate.
- Non-compliance with requirements for background checks.
- A contract was executed two months after the service was provided.
- City staff members prepared and submitted invoices on behalf of vendors.

### Housing & Community Development

- The department's policy manual was not updated as planned following the audit.

### Mesa Fire and Medical Department (MFMD)

- Departmental reference documents and training were not completed as planned.
- Non-compliance with requirements for background checks and written agreements.

### Mesa Police Department (MPD)

- Procedures designed to improve internal tracking of independent contractors were not implemented.

### Parks, Recreation & Commercial Facilities (PRCF)

- Written contracts were not always established as required.
- Different types of contracts were used for the same service/vendor.
- Contracts were signed after the services were provided.
- Payments were not consistent with contract terms.
- Contractor performance was not adequately monitored.

### Public Information & Communications (PIO)

- Written contracts were not always established as required.

## APPENDIX

FOLLOW-UP FINDINGS	RECOMMENDATIONS	DEPARTMENT RESPONSES	
<b>Arts &amp; Culture - Mesa Arts Center (MAC)</b>	<p>The MAC did not implement procedures to ensure that staff members verify that all payments to temporary agencies are consistent with contract terms. As a result, when the MAC made payments that exceeded the contracted rate for certain services, there were no controls in place to prevent or detect the errors.</p> <p><i>(Note: When the auditor brought this to their attention, staff immediately took steps to recover the overpayments.)</i></p> <p>In addition, management did not effectively ensure that all staff members involved in engaging independent contractors had an adequate understanding of the applicable requirements. Two areas of concern noted during the follow-up review include:</p> <ul style="list-style-type: none"> <li>• A required background check was not performed for an independent contractor engaged to work with disabled individuals.</li> <li>• A limited services contract was executed two months after the</li> </ul>	<p>1. The MAC should implement procedures to ensure that all future payments comply with applicable contract terms.</p> <p>2. The MAC should ensure that staff members responsible for administrative duties related to the use of temporary labor are aware of and comply with all applicable policies and guidelines.</p>	<p>"Staff will be sure to check and verify contract terms during service delivery and payment of invoices, to ensure that payments accurately reflect the terms of the contract."</p> <p>"As discussed, we will review the applicable policies and guidelines, and will work with HR to create a training session that can help our administrative employees learn all necessary forms and approvals needed for temp labor management. In particular, we will ensure that the appropriate form is used for any pay changes for temp labor, and that approvals of same are fully documented."</p> <p>"We are very careful about protecting our patrons, especially those unable to protect themselves. Due to the supervised nature of our work at outside institutions, we did not realize the artists working there were required to be fingerprinted. We have now communicated this requirement to the program supervisor, and we will ensure that all future contractors working with vulnerable individuals, even when supervised by institutional staff, go through the required background checks. We will be meeting on May 8th with the HR Director to discuss whether our visiting touring artists who go</p>

<b>FOLLOW-UP FINDINGS</b>	<b>RECOMMENDATIONS</b>	<b>DEPARTMENT RESPONSES</b>
<b>Housing &amp; Community Development</b>  The Housing & Community Development Department did not incorporate MP 332 into the department's policy manual as planned in response to the original audit.	<p>service was provided.</p> <p>Lastly, we noted that MAC staff members routinely prepare and submit invoices on behalf of vendors. In our opinion, this practice is not in the best interest of the City.</p> <p>4. The MAC should ensure that Limited Services Contracts, when necessary, are established and signed prior to the services being performed.</p> <p>5. The MAC should require vendors to prepare and submit invoices, rather than expending City resources to perform this task.</p>	<p>into schools to do short workshops in a classroom or assembly setting, always in the company of City and school staff, can be exempted. These are national and international artists who are not located here in our community and we believe this requirement would prohibit the delivery of these extraordinary services. Continual supervision can eliminate any risk or liability in these circumstances."</p> <p>"We have been diligent in preparing and executing contracts in advance, and the administrative error that caused this one issue to occur will not be repeated."</p> <p>"MAC concurs with this recommendation, and will remind all staff who utilize vendors for programs or services, that invoices must be generated by the vendors, and not by staff."</p>
		<p>"Housing &amp; Community Development has placed Management Policy 332 in the following manuals— CDBG Procedural manual and HOME Procedural manual. The procurement process in the NSP Procedural manual refers back to the procurement process in the CDBG Procedural manual."</p>

FOLLOW-UP FINDINGS	RECOMMENDATIONS	DEPARTMENT RESPONSES
<b>Mesa Fire and Medical Department (MFMD)</b> Prior to the start of this follow-up review, MFMD had not implemented departmental reference documents or management training as outlined in their 2012 audit response.	In addition, processes were not implemented (or were ineffective) to ensure the use of independent contractors fully complied with City requirements for background checks and written agreements.	MFMD should complete the development and implementation of departmental Standard Operating Procedures for engaging independent contractors. These procedures should include, but not be limited to, the following: <ul style="list-style-type: none"> <li>• Ensuring that contractors expected to be in contact with minors, the homebound, or disabled individuals, have been properly background checked and fingerprinted (except as specifically exempted by the HR Director).</li> <li>• Obtaining signed contracts that specify the terms of the relationship, in accordance with Management Policy 332 – Use of Independent Contractors.</li> </ul>
<b>Mesa Police Department (MPD)</b> Following staffing changes at MPD, new staff members were unaware of the corrective action plans the Department had issued in response to the original audit. Therefore, procedures designed to improve internal tracking of independent contractors were not implemented until after the start of this follow-up review.	MPD should fully implement the Contract Guidelines recently created by the Police Fiscal Manager, and should continue to develop and implement the contract and purchase tracking system that was in progress at the time of this review. Ongoing staff training should be provided as needed to ensure continued compliance.	"MFMD has developed a procedure for ensuring that: a) Contractors are properly background checked in accordance with the City's Personnel Rules and the Human Resources Department's background check guidelines, and b) Signed contracts are obtained from contractors that specify the terms of the relationship. We began educating our managers about this procedure in Fall 2013 and continue to do so via quarterly budget meetings. In addition, we will formally codify the procedure as an SOP and perform an internal compliance review by July 2014."

<b>FOLLOW-UP FINDINGS</b>	<b>RECOMMENDATIONS</b>	<b>DEPARTMENT RESPONSES</b>
<b>Parks, Recreation &amp; Commercial Facilities (PRCF)</b>  Improvement is still needed in the use of independent contractors. PRCF has not established effective procedures or other written guidance for supervisors and financial staff with regard to determining the necessity of a written contract or monitoring and documenting contractor performance. We found inconsistencies in contracting practices, including but not limited to:	<ul style="list-style-type: none"> <li>• Contracts signed for some, but not all, services provided by a single vendor;</li> <li>• Different types of contracts for the same service provided by the same vendor;</li> <li>• Contracts signed after the work was performed;</li> <li>• Payments not consistent with contract terms; and</li> <li>• Lack of documented contract monitoring or oversight.</li> </ul>	<p>1. PRCF should develop a checklist for staff to use in determining when to obtain a Limited Services Contract (LSC); and should continue training supervisors and financial staff on the requirements of Management Policy 332 – Use of Independent Contractors, so that the policy is applied consistently throughout the Department.</p> <p>2. PRCF should implement a formal process for monitoring contractors to ensure compliance with contract terms. The process should establish minimum standards for documentation of meetings, spot checks and/or supervisor reviews commensurate with the nature of the contracted service. The importance of accuracy, attention to detail, and diligent management oversight should be continually emphasized.</p>
<b>Public Information &amp; Communications (PIO)</b>  The corrective action stated in PIO's response to our original recommendation	PIO should consult with the City Attorney's Office and, if necessary, establish contracts for the personal services utilized by the department. Once established,	"PIO will hire all employees unless contracted otherwise through the City's temporary employment staffing agency using specialty pay plan positions. In cases when individuals

<b>FOLLOW-UP FINDINGS</b>	<b>RECOMMENDATIONS</b>	<b>DEPARTMENT RESPONSES</b>
was not implemented. Management could not "ensure that payments to contractors are consistent with contract terms", because they did not establish contracts for the services that were provided. These services were for projects for which deliverables and compensation should be defined; therefore, Management Policy 332 is applicable and written contracts should be obtained.	management should ensure compliance with contract terms.	are contracted outside the City's staffing agency(ies), PIO will use the City's standard professional services agreement for long-term, continuous work and a City Attorney-approved "freelance" services agreement for sporadic, lower dollar services provided. In all cases, these agreements will be monitored to assure conditions and terms are met and dollar limits not exceeded."



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Audit, Finance & Enterprise  
June 2, 2014  
Attachment 5  
Page 1 of 6

Date: May 13, 2014

To: Audit, Finance and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Follow-up Review – Audit of AZ Museum of Natural History

cc: Mayor and Council  
Natalie Lewis, Assistant to the City Manager  
Cindy Ornstein, Arts & Culture Department Director  
Rob Schultz, Arts Administrator  
Tom Wilson, Museum Administrator

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of our audit of our audit of the AZ Museum of Natural History. The final report is attached and will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. Please feel free to contact me with any questions or concerns.

## FOLLOW-UP REVIEW

## CITY AUDITOR

**Report Date:** May 13, 2014  
**Department:** Arts and Culture  
**Subject:** Arizona Museum of Natural History (AZMNH)  
**Auditor:** Bill D'Elia, Sr. Internal Auditor

### **OBJECTIVE**

The objective of this review was to determine whether AZMNH management has effectively implemented the action plans presented in their response to our February 2013 audit.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we interviewed AZMNH staff members, observed operations, and reviewed relevant documents provided by management.

### **BACKGROUND**

In 2013, we audited the Museum to determine whether internal controls were in place and operating effectively to provide reasonable assurance that management's objectives would be achieved and to reduce the risk that losses due to errors or fraud could occur without detection. Based on our findings, we recommended that the Museum do the following:

- Maintain accurate records of all objects, including exhibition objects of significant value.
- Perform inventories to bring the collections database up to date.
- Record loans of Museum collection objects in the collections database.
- Negotiate revised agreements with the Museum Foundation and Guild.
- Perform background checks on all volunteers who have contact with minors.
- Obtain written parental authorization for all volunteers under the age of 18.
- Secure the donation box.
- Establish controls for and monitor promotional sales.
- Prohibit staff from manually recording credit card information on paper forms.

### **CONCLUSION**

In our opinion, most of the corrective actions planned by management in response to the audit have been substantially implemented. Progress is being made in the effort to update inventory records, a process which was expected to take several years to complete. A revised agreement with the Museum Guild has been completed, but has not yet been finalized. As of this review, however, a revised agreement with the Foundation has not yet been completed. In addition, procedures for documenting background checks for volunteers and permission slips for minors are still in need of improvement. A complete list of the original recommendations and responses, along with our findings regarding the implementation status of each corrective action plan at the time of this review, is presented in the attached Appendix.

## APPENDIX

✓ = Implemented    ♦ = In Progress    X = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>	
<b>CAP#1: Collection/Exhibit Inventory Management</b>		
<p><b>Recommendation #1:</b> The Museum should maintain accurate records of all collection objects, all objects held pending accession to the collection, and all objects of significant value held for exhibition or educational use. To the extent possible, the Museum's collection database should be utilized for this purpose. The purchase price or other record of value (if any) should also be recorded.</p> <p><b>Management Response:</b> <i>"Agree that museum should keep accurate records in all categories listed. Agree that all collection objects should be in collections management database. The museum will keep accurate records of all objects pending accession and all objects of significant value held for exhibition or educational use. The museum will record the purchase price or appraised value in appropriate location."</i></p>	<p><b>In Progress</b> The Museum has begun the process of establishing formal records for objects not previously in the database.</p>	♦
<p><b>Recommendation #2:</b> Management should develop a plan to:</p> <ul style="list-style-type: none"><li>- Perform a complete inventory and bring the database up to date.</li><li>- Implement a periodic or perpetual inventory process, to ensure the ongoing accuracy of the inventory records.</li></ul> <p><b>Management Response:</b> <i>"Museum currently performs periodic and perpetual inventory, to ensure the ongoing accuracy of inventory records. A complete inventory of the collections of a museum of the size and type of AzMNH normally takes years, as will bringing the database up to date. AzMNH will comply commensurate with staffing and financial availability."</i></p>	<p><b>In Progress</b> The Museum has developed a plan, obtained outside help, and performed substantial work to bring the database up to date. As discussed in their original response to the audit, this would be an ongoing process that would take several years, based on available resources; therefore, while progress has been made, continued attention to this area must be maintained.</p>	♦

## APPENDIX

 = Implemented     = In Progress     = Not Implemented

<b>Corrective Action</b>	<b>Implementation Status</b>	
<p><b>Recommendation #3:</b> All loans of Museum collection objects should be recorded in the collections database, which should be used to track loan status.</p> <p><b>Management Response:</b> <i>"Agree that loans should be in the collections database. For this to occur, the objects lent need to be in the collections database. While we catch up on entering collections objects in the collections database, loans will be recorded in the non-electronic collections database, the loan files."</i></p>	<p><b>In Progress</b> The Museum has established procedures to enter loan information into the collection database. They were in the process of entering the information during this review. We note that this area is considered ongoing, and completion will be contingent on available resources.</p>	
<b>CAP#2: Affiliate Agreements</b>		
<p><b>Recommendation #1:</b> Management should negotiate a new agreement between the City and the Museum Foundation, to define their respective roles and responsibilities, and to ensure the interests of both parties are protected.</p> <p><b>Management Response:</b> <i>"AzMNH will initiate the process with AzMNH Foundation by March 31, 2013. AzMNH will then work with the 501(c)(3) organization and City of Mesa departments to guide and keep on track the process of updating the agreement."</i></p>	<p><b>Not Implemented</b> The new agreement has not been negotiated.</p>	
<p><b>Recommendation #2:</b> Management should negotiate a new agreement between the City and the Museum Guild, to define their respective roles and responsibilities, and to ensure the interests of both parties are protected.</p> <p><b>Management Response:</b> <i>"AzMNH will initiate the process with AzMNH Foundation by March 31, 2013. AzMNH will then work with the 501(c)(3) organization and City of Mesa departments to guide and keep on track the process of updating the agreement."</i></p>	<p><b>In Progress</b> A new agreement has been negotiated but not sent to the City Attorney for review because the Museum was waiting for the Foundation agreement to be complete.</p>	

## APPENDIX

✓ = Implemented    ♦ = In Progress    X = Not Implemented

Corrective Action	Implementation Status	
<b>CAP#3: Initial Processing of Volunteers</b>		
<b>Recommendation #1:</b> Management should require the Volunteer Coordinator to background check all volunteers who have contact with minors or the disabled; and should determine whether any other volunteer positions should be subject to the web-based background check.	<b>Implemented, but Needs Improvement</b> Background checks are now required for all volunteers who have contact with minors or the disabled. However, staff members were not able to locate documents proving all current volunteers have been background checked. We recommend that management review & improve recordkeeping procedures to ensure this information is maintained for all volunteers.	✓ -
<b>Management Response:</b> "Implement immediately."		
<b>Recommendation #2:</b> Management should require the Volunteer Coordinator to obtain parental authorization forms for all volunteers under age 18.	<b>Implemented, but Needs Improvement</b> Parental authorization forms are now required for all volunteers under age 18. However, these forms were not on file for 10 out of the 55 individuals in this group. We recommend that management review & improve recordkeeping procedures to ensure this information is maintained for all volunteers under age 18.	✓ -
<b>Management Response:</b> "Implement immediately."		
<b>CAP#4: Financial Controls Need Improvement</b>		
<b>Recommendation #1:</b> The Museum should improve controls related to the Foundation's donation box.	<b>Implemented</b> The donation box is properly secured.	✓
<b>Management Response:</b> "Implement immediately."		
<b>Recommendation #2:</b> In the future, if the Museum enters into a contract that provides revenue on the basis of another entity's sales, the contract terms should require that entity to provide	<b>Implemented</b> The Museum negotiated one contract of this nature. The contract terms required an accounting of the sales, and	✓

## APPENDIX

 = Implemented  = In Progress  = Not Implemented		
<b>Corrective Action</b>	<b>Implementation Status</b>	
<p>an accounting of those sales. In addition, Museum administrative staff members should implement procedures to monitor such contracts for compliance.</p> <p><b>Management Response:</b> <i>"Implement immediately."</i></p>	administrative staff implemented procedures to monitor compliance.	
<p><b>Recommendation #3:</b> Management should prohibit Education staff from manually recording credit card numbers on paper forms. These payments should be entered directly into the computer system, or the calls should be transferred to the front desk staff for processing. Any credit card information written on registration forms (i.e. by customers) should be fully and effectively redacted or destroyed.</p> <p><b>Management Response:</b> <i>"Implement immediately."</i></p>	<b>Implemented</b> Education staff is now prohibited from manually recording credit card information on paper registration forms. Payments are entered directly into the computer system.	



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Audit, Finance & Enterprise  
June 2, 2014  
Attachment 6  
Page 1 of 5

Date: May 19, 2014

To: Audit, Finance and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Follow-up Review – Audit of DMA Agreements

cc: Mayor and Council  
Bill Jabjiniak, Economic Development Department Director  
Natalie Lewis, Assistant to the City Manager

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of our audit of our audit of the City's agreements with the Downtown Mesa Association (DMA). The final report is attached and will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. Please feel free to contact me with any questions or concerns.



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Audit, Finance & Enterprise  
June 2, 2014  
Attachment 6  
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## FOLLOW-UP REVIEW

## CITY AUDITOR

**Report Date:** May 19, 2014  
**Department:** Economic Development  
**Subject:** Downtown Mesa Association (DMA) Agreements  
**Auditor:** Bill D'Elia, Sr. Internal Auditor

### OBJECTIVE

The objective of this review was to determine whether the Economic Development Department has effectively implemented the action plans presented in their responses to our May 2013 audit of the DMA Agreements.

### SCOPE & METHODOLOGY

To accomplish our objective, we interviewed City staff members; reviewed the current agreement between the DMA and the City (one agreement has replaced the two prior agreements); analyzed the DMA's financial statements for the prior fiscal year and current fiscal year to date; and reviewed parking revenue collection procedures and insurance documents.

### BACKGROUND

In 2013, we audited the Parking and Special Improvement District #228 (SID) Agreements between the City of Mesa and the Downtown Mesa Association to determine whether the City and the DMA were operating in compliance with the terms of the agreements. Based on our findings, we recommended that Economic Development do the following:

- Monitor the DMAs' revenues and expenditures to ensure that future agreements do not provide significantly more funds than are needed to provide the services.
- Work with the DMA to determine the most appropriate use of accumulated funds.
- Ensure controls are in place to safeguard City parking funds from loss.
- Require the DMA to submit its revenue collection and accounting procedures to the City's Financial Services Department for review and approval.
- Obtain required certificates of insurance from the DMA, and review coverage annually for compliance with the agreements.
- Modify the agreements to ensure they contain only terms the parties intend to enforce.

### CONCLUSION

In our opinion, all of the corrective actions planned by management in response to the audit have been substantially implemented. However, due to some miscommunication, the DMA's revenue collection and accounting procedures were not reviewed by the Financial Services Department until after the start of this review. A complete list of the original recommendations and departmental responses, along with our findings regarding the implementation status of each corrective action plan, is presented in the attached Appendix.

## APPENDIX

 = Implemented     = In Progress     = Not Implemented

Corrective Action	Implementation Status	
<b>CAP#1: The City has not critically evaluated the DMA's funding requirements.</b>		
<p><b>Recommendation #1:</b> Management should require City staff to regularly monitor the DMA's revenues and expenditures, to ensure that future agreements do not provide significantly more funds than are needed to provide the services.</p> <p><b>Management Response:</b> <i>"City staff will regularly monitor DMA's revenues and expenditures for all services.</i></p> <p><i>City staff will work with DMA to review and adjust the agreements in a manner which more accurately reflect services and expectations."</i></p>	<p><b>Implemented</b></p> <p>Economic Development Staff appropriately monitored the DMA's revenues and expenses.</p>	
<p><b>Recommendation #2:</b> Management should work with the DMA on an annual basis to determine the appropriate disposition of funds accumulated by DMA in excess of established reserves. Consideration should be given to re-budgeting the funds for the next contract year, which may provide some relief to the City's General Fund.</p> <p><b>Management Response:</b> <i>"City staff will continue working with DMA to determine uses for the funds which closely align with the City's original intent based on the agreements and DMA's core mission.</i></p> <p><i>Please note, the board recently approved and allocated approximately \$120,000 for new banners and brackets, an updated parking plan, vehicle and equipment maintenance and replacement, and a plan for a way-finding signage program."</i></p>	<p><b>Implemented</b></p> <p>The DMA has re-budgeted funds for two consecutive fiscal years, using accumulated funds to offset funds normally received from assessments.</p>	
<b>CAP#2: Controls related to parking revenue collection have not been enforced.</b>		
<p><b>Recommendation #1:</b> The City should require the DMA to obtain an audit of the parking program collections and accounting procedures each year; or should modify the agreement to include alternative controls to ensure City funds are safeguarded from loss. If an audit is required, the report should be submitted to the Economic Development Department rather than to the City Auditor.</p>	<p><b>Implemented</b></p> <p>The City modified the agreement to include alternative controls to ensure City funds are safeguarded from loss.</p>	

## APPENDIX

✓ = Implemented    ♦ = In Progress    X = Not Implemented

Corrective Action	Implementation Status	
<p><b>Management Response:</b> "City staff will work with DMA to obtain a review and approval of the parking program collections and accounting procedures. We will also modify the agreement to include alternative controls in order to safeguard City funds.</p> <p><i>City staff will review the established procedures annually.</i>"</p>		
<p><b>Recommendation #2:</b> The City should require the DMA to submit its revenue collection and accounting procedures to the City's Financial Services Department for review and approval; and Economic Development should coordinate with Financial Services to ensure this is done.</p> <p><b>Management Response:</b> "City staff will work with DMA and the City's Financial Services Department to formally review and approve the revenue collection and accounting procedures. A copy of the policy and procedures manual will be provided to the economic development staff annually."</p>	<p><b>In Progress</b></p> <p>Due to some miscommunication, this review did not take place. However, after the start of this follow-up, the procedures were submitted to Financial Services for review and approval.</p>	♦
<p><b>CAP#3: Insurance documentation was not reviewed to verify compliance.</b></p>		
<p><b>Recommendation #1:</b> Management should require the DMA to provide current and complete certificates of insurance each year; and should carefully review those certificates to verify compliance with all agreements.</p> <p><b>Management Response:</b> "DMA has maintained and currently carries the required amounts of insurance in accordance with the City's Agreement.</p> <p><i>City staff will ensure appropriate certificates of insurance are on file each year. They will also verify that the insurance complies with the agreements.</i></p> <p><i>Annually, city staff will review the current insurance coverage with the City's risk manager.</i>"</p>	<p><b>Implemented</b></p> <p>Economic Development obtained the required certificates of insurance and reviewed coverage to ensure compliance with the agreement.</p>	✓

## APPENDIX

✓ = Implemented    ♦ = In Progress    X = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>
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**CAP#4: Agreements do not reflect current expectations.**

<p><b>Recommendation #1:</b> Management should determine which contract terms are important and which ones are not, and should modify future agreements accordingly. Additional care should be taken to ensure the agreements are consistent throughout and contain only those terms the parties intend to enforce.</p> <p><b>Management Response:</b> <i>"DMA staff agrees that the formats and agreements should be updated to reflect the new format.</i></p> <p><i>City staff will work with DMA and legal services to update and modify the agreements to more accurately reflect the expectations as well as obtain consistency in the agreements."</i></p>	<p><b>Implemented</b> The agreement has been modified to reflect only those terms the parties intend to enforce.</p>	<p>✓</p>
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