



AUDIT, FINANCE & ENTERPRISE COMMITTEE

May 20, 2013

The Audit, Finance & Enterprise Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on May 20, 2013, at 3:32 p.m.

COMMITTEE PRESENT

Alex Finter, Chairperson
Dina Higgins
Scott Somers

COMMITTEE ABSENT

Christopher Brady, Ex Officio

STAFF PRESENT

Donna Bronski
Alex Deshuk

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation, discuss and provide direction on a Development Fees (Impact Fees) update.

Office of Management and Budget Director Candace Cannistraro displayed a PowerPoint presentation (**See Attachment 1**) and reported that for more than a year and a half, staff has been working on a development fees update. She stated that staff is now prepared to bring forward a recommendation to the Committee in this regard.

Ms. Cannistraro explained that her presentation relates to the City of Mesa's response to Senate Bill 1525 (SB 1525), which the Arizona Legislature passed in 2011 and became effective January, 2012. She noted that SB 1525 changed many of the requirements for development fees (i.e. impact fees), including the eligibility of certain projects.

Ms. Cannistraro highlighted the projects that are no longer eligible for impact fees as follows:

- General Government and Cultural projects
- Libraries greater than 10,000 square feet
- Parks greater than 30 acres (unless they provide a direct benefit to the development)

In response to a question from Committeewoman Higgins concerning the designated size limitations for libraries and parks, Ms. Cannistraro explained that one of the considerations that

was addressed during the drafting of the bill was the impact on housing and development. She stated that the focus of the legislation was on neighborhood parks and libraries as opposed to regional parks and libraries.

Development and Sustainability Department Director Christine Zielonka further commented that the discussion at the State Legislature with the Central Arizona Homebuilders Association (CAHA) was that an impact fee paid on an individual home ought to pay for local amenities only. She stated that it was the position of the CAHA that a west Mesa resident, for example, would never use the Red Mountain Regional Park.

In response to a question from Chairman Finter, Ms. Cannistraro clarified that to the best of her knowledge, the square footage of the Mesa Express Library is less than 10,000 square feet.

Responding to a question from Committeemember Somers, Ms. Cannistraro stated that she was uncertain of the square footage of Mesa's typical libraries, but would be happy to research the matter and report back to the Committee in this regard.

Chairman Finter commented that in order to provide library services to Mesa's residents in the future, if the City is unable to collect impact fees to build larger libraries, it might be reasonable to proceed with the Express Library model.

In response to a question from Committeemember Somers, Ms. Cannistraro indicated that per the new legislation, if the City built a 12,000 square foot library in southeast Mesa, for instance, it could charge impact fees up to the first 10,000 square feet. She pointed out that when the size of a library is greater than 10,000 square feet or a park is 30 acres or more, such sites would be considered regional facilities as opposed to neighborhood facilities.

Ms. Cannistraro continued with her presentation and stated that per the new law, Public Safety training facilities are also no longer eligible for impact fees.

Ms. Cannistraro explained that on January 2, 2012, Mesa discontinued the collection of General Government and Cultural development fees. She noted, however, that the City continues to collect the remaining fees at the adopted rates. She advised that the fees are used to retire debt service on growth-related projects that have already been completed. She added that the new eligibility requirements do not pertain to completed projects.

Ms. Cannistraro further remarked that the statute provides two processes for those cities that wish to continue the collection of development fees in the future. Those options include the following:

- New Fees – Create new development fees based on the new requirements outlined in the statute.
- Continue Existing Fees – Continue to assess the current development fees and use them solely for principal and interest payments on existing eligible debt.

Ms. Cannistraro reported that if the City of Mesa were to adopt new development fees, it would be required to conduct new development fee studies and implement the new fees by August, 2014. She explained that the City may either create a development fee committee to review and approve the development fees or, in the alternative, contract for a biennial audit of such fees.

She stated that although the fees would still be based on the existing level of service, the City would be required to delineate service areas and assess fees. She added that the fees in one service area may be different than those in another.

Ms. Cannistraro, in addition, remarked that all fees must be spent on projects that are identified in the Infrastructure Improvements Plan (IIP). She noted that the City of Mesa's Capital Improvement Program (CIP) meets the IIP requirement. She said that any fees collected in the future must be spent on a project listed in the CIP and completed within ten years. She pointed out that if a project is not completed within that timeframe, the fees must be reimbursed. She also commented that fees are now required to be reviewed every five years. (Note: The Mesa City Charter currently requires that such fees be reviewed every three years.)

Ms. Cannistraro advised that with respect to the second option, if the City of Mesa continued to assess the current development fees, such fees must have been adopted prior to January 1, 2012. She stated that the fees must only be used to pay off pledged debt on growth-related projects; and that the eligible projects must have been included in a prior IIP, financed before June 1, 2011, and not included in the existing level of service used to create the current development fees.

Ms. Cannistraro further remarked that throughout this update process, staff has conducted an extensive evaluation of the statute to assess which alternative would best meet the needs and obligations of the City. She explained that if the City adopted new development fees, such fees could only be spent on future projects. She said that this would require the City to expend \$1 million in General Fund dollars to pay General Obligation (G.O.) debt service and \$2.2 million from the Enterprise Fund to pay utility revenue debt service that is currently being paid for by development fees. She stated that the City would also be required to incur additional administrative costs in order to track the collection and possible reimbursement of development fees in each of the identified service areas.

Ms. Cannistraro expressed appreciation to staff from a number of City departments for their efforts and hard work with respect to this matter. She briefly highlighted some of the areas that staff focused on with respect to this item. (See Page 7 of Attachment 1)

Ms. Cannistraro stated that it was staff's recommendation that the City continue to assess the current development fees and use the revenue to pay existing debt on development-fee eligible projects. She pointed out that the current fees were adopted in 2007 and reiterated that the City's CIP functions as the required IIP. She noted that all of the identified projects were included in the CIP and financed prior to June 1, 2011. She said that the full project list and calculation of the remaining eligible pledged debt has been reviewed by an outside consultant. She added that the document is available for review at mesaaz.gov/budget.

Ms. Cannistraro advised that staff's recommendation was presented to the Development Advisory Board (DAB) at its April 24, 2013 meeting. She stated that the Boardmembers were asked to provide any comments or feedback prior to today's Audit, Finance & Enterprise Committee meeting. She indicated that staff has yet to receive any input from those individuals.

Ms. Cannistraro stated that staff was seeking the Committee's direction with respect to the following recommendations: 1.) That the development fees adopted in 2007 will continue (excluding the General Government and Cultural fees); 2.) That staff review the fees every five

years and also conduct a biennial audit regarding the use of development fee revenues; and 3.) Staff expects that the revenues needed to pay the remaining Library eligible pledged debt will be received before the five-year time period is complete. Once such revenues are received, the Library development fee will no longer be collected.

It was moved by Committeewoman Higgins, seconded by Committeemember Somers, that staff's recommendations, as outlined by Ms. Cannistraro, be forwarded on to the full Council for approval.

Carried unanimously.

Ms. Cannistraro stated that when the Council comes back from their summer break, this item will be brought back for Council action.

Chairman Finter thanked Ms. Cannistraro for the presentation.

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

1. Fleet Services Fuel Management – Follow-up Review

City Auditor Jennifer Ruttman reported that this follow-up review (**See Attachment 2**) was conducted to determine whether the Fleet Services Department effectively implemented the action plans presented in its response to the December 2011 audit of fuel management.

Ms. Ruttman explained that all of the corrective actions planned by management in response to the audit have been substantially implemented. She noted that her office made additional recommendations that Fleet Services management implement a process to ensure that such reviews continue to take place. She stated that the specific issues that were identified in the initial audit were corrected through the review process, but pointed out that during the follow-up, it was determined that some of those issues were recurring and not identified through a successive review process. She noted that such a process has been implemented and added that it was determined that a follow-up audit was unnecessary.

In response to a question from Committeewoman Higgins, Ms. Ruttman clarified that in the initial audit, some of the corrective actions include "either/or recommendations." She explained that if a department chose to implement one recommendation over another or had an alternative method which successfully mitigated a particular risk, her office was satisfied with those efforts.

Fleet Services Director Pete Scarafiotti addressed the Committee and commented that in his opinion, the audit was "very thorough." He stated that the audit afforded Fleet Services the opportunity to "find things that could be fixed if it had funding," and said that such requests would be included in next year's budget submittal.

Ms. Ruttman clarified that one of the items that Mr. Scarafiotti referred to would include "shoring up" the physical controls at the remote sites which, she acknowledged, would require additional funding. She noted, however, that Fleet Services was able to install locks, for instance, on some of the equipment, but reiterated that other recommendations were somewhat cost prohibitive at this time.

Mr. Scarafiotti further commented that since Fleet Services manages an estimated \$6 million worth of fuel annually, he suggested that it might be appropriate for the City Auditor's Office to conduct an audit with respect to fuel management at a minimum of every five years.

Chairman Finter thanked everyone for the presentation.

2. Custodial Services Contracts – Third Follow-up Review

Ms. Ruttman reported that this audit (**See Attachment 3**) relates to the last remaining recommendation that the Parks, Recreation and Commercial Facilities (PRCF) Department had not implemented, as of a second follow-up review, with respect to its contract for custodial services at the stadium.

Ms. Ruttman explained that the custodial services contractor's employees are given badge access to the stadium and stated that staff wanted to ensure that the badges were deactivated when those individuals left their employment with the contractor. She noted that a process has now been established and is working well to ensure that only authorized contractor employees have access to secure areas.

Chairman Finter thanked Ms. Ruttman for her presentation.

3. Downtown Mesa Association (DMA) Agreements

Chairman Finter invited David Short, Executive Director of the Downtown Mesa Association (DMA), and Economic Development Department Director Bill Jabjiniak to come forward.

Ms. Ruttman reported that this audit (**See Attachment 4**) was conducted to ensure that the contracts the City has entered into with the DMA are being managed appropriately within the Economic Development Department and that the parties to the agreements are complying with the terms.

Ms. Ruttman explained that the first finding related to the DMA's funding requirements and stated that the City provides funding to the DMA annually through parking management contracts and also the Special Improvement District # 228 (SID) assessments. She indicated that for various reasons, the DMA did not expend all of the funds over a period of time and accumulated significant cash reserves.

Ms. Ruttman pointed out that the DMA did, in fact, provide the services agreed upon in the contracts, but said that the audit revealed that it was able to do so for less money than anticipated, which resulted in a savings. She commented that what staff would like to have seen was that the excess reserves were identified on an ongoing basis and consideration given to re-budget those funds for the next contract year.

Ms. Ruttman, in addition, advised that the second finding is related to parking revenues, which the DMA collects and remits to the City of Mesa. She noted that such revenues are not retained by the DMA and it simply provides the service of collecting and remitting those monies to the City. She stated that the Parking Agreement includes controls which reflect that an audit of the parking program is to be conducted on an annual basis and also that the DMA's procedures for

collecting and accounting for all funds to be collected are reviewed by the City's Financial Services Department.

Ms. Ruttman noted that the audit revealed that while the DMA used the proper procedures (i.e., forms) with respect to remitting the revenues to the City, its cash collection and accounting procedures have not been reviewed. She added that an audit of the parking program has not been performed in many years.

Ms. Ruttman indicated that the audit recommended that either the DMA "do the things required" in the Parking Agreement or perhaps reevaluate and determine whether those are the best ways in which to control that process. She added that whatever the DMA determines to be the most effective means to ensure that those controls are in place, should be implemented in future agreements.

Ms. Ruttman reported that the third finding related to the fact that insurance documentation provided by the DMA had not been closely reviewed to verify compliance with City requirements. She stated that staff wanted to ensure that the City had the correct, complete and most current insurance documentation on file. She noted that this matter has been corrected.

Ms. Ruttman advised that the fourth finding was that agreements do not reflect current expectations. She explained that over the years as the agreements were revised and consolidated, the focus of the parties was on those terms that were of primary interest during specific negotiations. She stated that the remaining terms did not receive much attention since they were either viewed as standard terms and conditions or not the primary focus that was being negotiated at the time. She pointed out that there were terms in the agreements that neither party expected the other to perform, but were simply "lingering" from prior years. She noted that staff recommended that the agreements be updated to ensure that they accurately reflected the intent of all parties.

Mr. Short addressed the Committee and stated that the audit process has been helpful and resulted in his staff "digging back through history" to determine how the DMA operated 25 years ago and up through the new direction it is currently headed.

Committeewoman Higgins inquired if the parking revenues that the DMA collects for the City go directly into the General Fund or some other type of fund in order to pay for street resurfacing, parking lot improvements or other capital projects.

Ms. Ruttman clarified that staff obtained historical information from various agreements which stipulated that the revenues from each particular parking garage were to be used for that specific facility. She explained that her staff was advised that Financial Services did not see the value of such a stipulation in terms of funding for this purpose. She added that there is no special fund in which these monies are reserved.

Committeewoman Higgins commented that several years ago, the Council discussed "arbitrary sums of monies for parking fees." She questioned that if such fees are not used, for instance, for the maintenance and upkeep of parking lots, whether it is just "a random fee" that the City has imposed on citizens.

Ms. Ruttman responded that Committeewoman Higgins' question was not within the scope of the audit.

Chairman Finter asked that staff research Committeewoman Higgins' inquiry and report back to the Committee in this regard.

Ms. Ruttman stated that it was important to consider cost versus benefit of creating separate funds for such activities, when the information can be tracked with accounting without having actual separate funds.

Chairman Finter thanked Mr. Short for his leadership at the DMA.

Chairman Finter thanked everyone for the presentation.

4. City of Mesa Cemetery

Ms. Ruttman displayed a PowerPoint presentation (**See Attachment 5**) and reported that this audit was conducted to evaluate the operations of the Cemetery. She explained that due to the small size of the Cemetery's office staff, maintaining adequate cash handling was a challenge and noted that cash is no longer accepted at that location.

Ms. Ruttman advised that the first finding was that the Cemetery's database needs improvement. She noted that the Cemetery's Access database system is neither sophisticated nor sufficiently robust to handle even its simple operations. She stated that the Parks, Recreation and Commercial Facilities (PRCF) Department, which operates the Cemetery, has been working with the Information Technology Department (ITD) not only to improve the security and reliability of the Cemetery's database, but also to ensure that when transactions occur, that they are not overwritten or changed at a later time. She added that PRCF staff was considering various build or buy options.

PRCF Director Marc Heirshberg addressed the Council and stated that several years ago, staff conducted an analysis concerning a new database for the Cemetery which, at the time, was cost prohibitive. He explained that when staff determined that it was extremely expensive to purchase an "off the shelf" system, they also considered the possibility of ITD staff building a database system. He pointed out that during the implementation of CityEdge and the lack of ITD resources, the matter was placed on hold.

Mr. Heirshberg further noted that recently, ITD staff has once again reinvested some time into this process and implemented certain initial changes to move "the back end" off of the Access database onto a SQL Server-based platform. He said that testing is currently underway and added that staff will continue to work with ITD to evaluate "off the shelf" software solutions versus building a new web-based data system internally.

Ms. Ruttman remarked that the second finding related to controls over voided invoices need improvement. She stated that although the Cemetery staff had procedures in place, they were not being followed. She pointed out that one of the reasons that auditors "hone in" on voided invoices is because they are commonly used to manipulate or misappropriate funds. She said that the Cemetery staff has been reminded of the policy and procedure related to how to properly void invoices and record them properly.

Ms. Ruttman further commented that the third finding addressed the issue that the billing process for sales agreements needs improvement. She stated that this item was included in the report not so much because the Cemetery staff had the immediate ability to solve the problem, but rather due to certain challenges they are facing with the City's new financial system. She noted that in the interim, concerns were raised with respect to the amount of manual work that staff was doing in order to bill Cemetery customers who had payment plans, including applying interest and performing calculations. She added that when a follow-up review is conducted, her staff will assess whether the process for billing Cemetery customers for sales agreements has been fully integrated with the City's new financial system.

Chairman Finter thanked Ms. Ruttman for her presentation. He stated that the Committeemembers would do whatever they could to support her and her staff as they continue to conduct audits throughout the City.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 4:11 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 20th day of May, 2013. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

pag
(attachments – 5)

City of Mesa

Development (Impact) Fees

Response to Senate Bill 1525

Audit, Finance and Enterprise Committee
May 20, 2013

Presented by the Office of Management and Budget



Senate Bill 1525 – Eligible Projects

- Changed the facilities eligible for development fees. As of January 2012, the following are no longer eligible.
 - General Government and Cultural projects
 - Libraries greater than 10,000 square feet
 - Parks greater than 30 acres (unless they provide a direct benefit to the development)
 - Public Safety training facilities
- Mesa discontinued the collection of General Government and Cultural Development Fees on January 2, 2012
- Mesa continued the collection of the remaining fees at the adopted rates. Fees are used to retire debt service of growth-related projects already completed. The new eligibility requirements do not pertain to completed projects.

Senate Bill 1525 – Going Forward

- The statute provides two processes for cities that wish to continue the collection of development fees in the future
- **New Fees:** Create new development fees based on the new requirements
- **Continue Existing Fees:** Continue to assess current development fees and use them solely for principal and interest payments on existing eligible debt

Adopt New Development Fees

- Cities are required to conduct new development fee studies and implement new fees by August 2014
- Cities may either create a development fee committee to review and approve development fees or contract for a biennial audit of the development fee reports
- Fees are still based on the existing level of service
- Fees must be spent on projects identified in the Infrastructure Improvement Plan (IIP) and must be reimbursed if not spent within 10 years (15 years for Water and Wastewater)
- Service Areas would need to be delineated. Development fees would vary based on the service area experiencing the development
- Fees are required to be reviewed every five years

Continue Current Development Fees

- Fees must have been adopted prior to January 1, 2012
- Fees must be used solely to pay off pledged debt on growth related projects
- Eligible projects must:
 - Have been included in a prior Infrastructure Improvement Plan (IIP)
 - Have been financed before June 1, 2011
 - Have not been included in the existing level of service used to create the current development fees

*ARS § 9-463.05 (R)

Process of Evaluating Alternatives

- Staff looked at each alternative to determine which would best meet the needs and obligations of the City
- If the City decided to adopt new development fees according to SB 1525, development fees could only be spent on future projects.
 - This would require the General Fund to pay for the \$1M of general obligation debt service and the Enterprise Fund to pay for the \$2.2M of utility revenue debt service currently being paid for by development fees.
- Additional administrative costs would fall on the City in order to keep track of the collection and possible reimbursement of development fees in each of the identified service areas.

Role of the Departments

- Each City department was critical in the analysis of the different options allowed by SB 1525.
- Departments spent significant time :
 - Identifying service areas for each of the impact fee categories
 - Identifying whether future projects were necessary to accommodate new growth or to replace existing infrastructure
 - Going through all projects financed since 2007 to determine if and to what extent projects were growth related

City Staff - Recommendation

- City staff recommends that the City continue to assess the current development fees and use the revenue to pay existing debt on development-fee eligible projects
 - Current fees were adopted in 2007
 - The City’s Capital Improvement Program (CIP) served as the required Infrastructure Improvement Plan (IIP)
 - All identified projects were included in a CIP and were financed prior to June 1, 2011
 - The full project list and calculation of remaining eligible pledged debt has been reviewed by an outside consultant. The “Pledged Debt Analysis” document is available for viewing at mesaaz.gov/budget.

Development Fees – Direction Requested

- Staff recommends that the development fees adopted in 2007 will continue (excluding the General Government and Cultural fees)
- Reviewing fees every five years and conducting a biennial audit are only requirements for the adoption of new fees. They are not required for the continuation of existing fees. However, staff recommends conducting a biennial audit regarding the use of development fee revenues and plans to review the development fees in their entirety in five years.
- Staff expects that the revenues needed to pay the remaining Library eligible pledged debt will be received before the five year time period is complete. Once the required revenues are received, the library development fee will no longer be collected.





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

Date: April 30, 2013
To: Audit, Finance & Enterprise Committee
From: Jennifer Ruttman, City Auditor
Subject: Fleet Services Fuel Management – Follow-up Review
cc: John Pombier, Deputy City Manager
Pete Scarafiotti, Fleet Services Director

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of Fleet Services Fuel Management. The final report is attached. Please feel free to contact me you have any questions.

FOLLOW-UP REVIEW

CITY AUDITOR

Report Date:	April 30, 2013
Department:	Fleet Services
Subject:	Fuel Management
Auditor:	Bill D'Elia, Sr. Internal Auditor

OBJECTIVE

The objective of this review was to determine whether the Fleet Services Department has effectively implemented the action plans presented in their responses to our December 2011 audit of fuel management.

SCOPE & METHODOLOGY

To accomplish our objective, we interviewed City staff members responsible for fuel management; analyzed fuel system activity and validation settings; and reviewed controls related to fuel system access, miscellaneous fueling, physical security, and management oversight.

BACKGROUND

In 2011, we audited the City's Fleet Services Department to determine whether City fuel is adequately procured, safeguarded, and accounted for. Based on our findings, we recommended that Fleet Services do the following:

- Use appropriate validation settings to limit fuel access.
- Require management authorization for new access requests.
- Deactivate unnecessary vehicles and fuel cards.
- Monitor system changes.
- Limit users' access to only those functions that are essential to their job duties.
- Improve controls over miscellaneous fueling.
- Improve physical security over fuel sites.
- Improve controls over leased vehicle fueling.

CONCLUSION

In our opinion, all of the corrective actions planned by management in response to the audit have been substantially implemented. However, in order to ensure ongoing effective fuel management, Fleet Services should continue to conduct periodic reviews of system settings and should regularly analyze exception reports to identify potential issues as they arise. 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 X = Not Implemented Ø = Not Applicable*

<u>Corrective Action</u>	<u>Implementation Status</u>	
CAP#1: Improvements to Fuel Authorization Process		
<p>Recommendation #1: Fleet should ensure that FuelForce validation settings, including odometer validations and 2-hour wait requirements, are appropriate for all vehicles.</p> <p>Management Response: <i>"Fleet will audit all active Fuel Force vehicles and work orders to ensure proper validations in place per normal vehicle operation or documented department request."</i></p>	<p>Implemented</p> <p>Fleet audited and corrected validation settings to address the original audit findings; however, they did not establish a process for recurring reviews. We recommend that they periodically review these settings to ensure settings remain appropriate for all vehicles, especially those acquired since the last review.</p>	<p>✓</p>
<p>Recommendation #2: Fleet should periodically identify and deactivate unnecessary FuelForce vehicles and fuel cards.</p> <p>Management Response: <i>"We will request a query report to identify vehicles and cards which meet the criteria. On occasion there are valid reasons why there has been no activity, but in reviewing the audit findings most cases are historical oversights."</i></p>	<p>Implemented</p> <p>Fleet developed the query report as promised, and deactivated most of the vehicles and cards as recommended; however, they did not establish a process for recurring reviews. We recommend that they periodically run and review the report to ensure only necessary vehicles and cards remain active in the system.</p>	<p>✓</p>
<p>Recommendation #3: Fleet should develop a process for ensuring that new fuel cards have been properly authorized, such as requiring supervisors and/or RC managers to sign a request or send an email to Fleet administrative staff.</p> <p>Management Response: <i>"Fleet will continue to provide a fuel card for new vehicles put in service. However, we will require proper department authorization to grant employee key pad authorization for fuel."</i></p>	<p>Implemented</p> <p>Fleet requires proper department authorization to grant an employee key pad authorization for fuel.</p>	<p>✓</p>

* Items marked "Not Applicable" are included for information purposes only.

APPENDIX

✓ = Implemented ♦ = In Progress X = Not Implemented Ø = Not Applicable*

<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>Recommendation #4: Fleet should work with the Information Technology Department (ITD) to develop reports that notify Fleet administrative staff of changes to FuelForce vehicles, fuel cards, or vehicle validation criteria, and verify that all changes are appropriate.</p> <p>Management Response: <i>"We concur that an administrative review of any changes as mentioned is beneficial. Unfortunately the vendor does not currently maintain a transaction log that would provide this data. We have spoken with the vendor regarding creating a file in future updates. We have implemented a formal log for all miscellaneous fuel transactions by Fleet staff."</i></p>	<p>Implemented</p> <p>Fleet maintains a log of miscellaneous fuel transactions, as noted in their response. However, we also continue to recommend that, to the extent possible, changes to existing records should be monitored.</p>	<p>✓</p>
CAP#2: Improvements to FuelForce & FleetAnywhere Systems Access Controls		
<p>Recommendation #1: Fleet should continually ensure that users only have access to FuelForce functions that are necessary for their job duties. Special care should be given when granting system administrator rights or access to fuel authorization settings.</p> <p>Management Response: <i>"Fleet staff members responsible for this system were not aware of the security level issues until questioned in the audit. This resulted in a follow up conversation with the vendor and appropriate changes have been implemented."</i></p>	<p>Implemented</p> <p>Overall, access rights have been appropriately limited as recommended. However, we found that one retired employee still had administrative rights to the system. Staff corrected this when informed of the issue.</p>	<p>✓</p>

* Items marked "Not Applicable" are included for information purposes only.

APPENDIX

✓ = Implemented ◆ = In Progress ✗ = Not Implemented Ø = Not Applicable*

<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>Recommendation #2: Fleet and the MFD should continually ensure that FleetAnywhere users are only granted vehicle creation or system administrator rights if their job duties warrant it.</p> <p>Management Response: <i>“As a result of this audit there are two individuals in Fleet Services and one in MFD that have full administrator access. These individuals determine the level of access staff have to the system. When employees terminate ITD removes all their computer access rights. MFD has addressed the issue for their users.”</i></p>	<p>Implemented</p> <p>Administrative rights to the FuelForce system are now limited to those employees who need it to perform their duties. However, as noted above, we recommend that retired employees have their FuelForce administrative rights terminated in addition to having their network rights terminated by ITD.</p>	<p>✓</p>
<p>CAP#3: General Lack of Control Over Miscellaneous Fueling</p>		
<p>Recommendation #1: Fleet should consider implementing proximity card readers, at least at the less-secure fueling sites (6th Street, EMSC, Magma); to ensure that only authorized staff with City of Mesa access cards can obtain fuel.</p> <p>Management Response: <i>“Disagree. ... This proposal may be a viable alternative to cards but an in depth feasibility study must be done prior to making an implementation decision.”</i></p>	<p>N/A</p> <p>No action was expected, as the department disagreed with the recommendation and no alternative actions were proposed.</p>	<p>Ø</p>

* Items marked “Not Applicable” are included for information purposes only.

APPENDIX

✓ = Implemented ♦ = In Progress X = Not Implemented Ø = Not Applicable*

<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>Recommendation #2: Fleet should reduce the specified gallon capacities and/or add 2-hour wait times, as appropriate, for each miscellaneous vehicle code.</p> <p>Management Response: <i>"Fleet has requested and received formal documentation from all Department Supervisors who utilize miscellaneous fuel regarding fuel requirements and made the necessary changes. We are also investigating the feasibility of installing smaller fuel tanks for Parks and Cemetery on site."</i></p>	<p>Implemented</p> <p>Although no gallon capacities were reduced, 2 hour wait times were established as recommended.</p>	<p>✓</p>
<p>Recommendation #3: Fleet should work with ITD to develop exception reports that highlight unusual transactions or patterns; and follow-up on exceptions and/or distribute them to the departments for review and resolution.</p> <p>Management Response: <i>"The fuel system administrators will develop exception criteria reports."</i></p>	<p>Implemented</p> <p>Fleet runs exception reports and follows up to appropriately resolve exceptions.</p>	<p>✓</p>
<p>CAP#4: Physical Security Improvements</p>		
<p>Recommendation #1: Fleet should request that Municipal Security close the gates to the 6th Street and EMSC fuel sites during unpopulated hours (currently all daytime hours for EMSC and Saturday afternoons for 6th Street); AND/OR implement Rec #2.</p> <p>Management Response: <i>"Fleet is not in a position to dictate Yard Schedules as the yards are used by multiple departments."</i></p>	<p>N/A</p> <p>No action was expected, as the department disagreed with the recommendation and no alternative actions were proposed.</p>	<p>Ø</p>

* Items marked "Not Applicable" are included for information purposes only.

APPENDIX

✓ = Implemented ♦ = In Progress X = Not Implemented Ø = Not Applicable*

<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>Recommendation #2: Fleet should implement additional physical security measures, such as installing locking fill pipes on fuels tanks or dedicated security cameras.</p> <p>Management Response: <i>"Fleet has ordered tamper proof lockable fill caps for the Sixth street and East Mesa yards. They will be installed when obtained from the vendor. Access to the keys will be limited. Fleet will also request the fuel sites be considered for future security enhancements."</i></p>	<p>Implemented</p> <p>Tamper proof caps have been installed at both locations and keys have been appropriately limited.</p>	<p>✓</p>
CAP#5: Lack of Controls Over Leased Vehicle Fueling		
<p>Recommendation #1: The Police Department should work with Fleet and ITD to develop fuel usage reports; and periodically review these reports to ensure that fuel is only being used for City business.</p> <p>Management Response: <i>"MPD and Fleet personnel met and are in the process of developing a report, which will track fuel usage by personnel assigned to lease vehicles. The report will be reviewed and analyzed by MPD Fleet Management and then forwarded to workgroup supervisors to verify fuel usage by assigned personnel. The report will be generated and analyzed every six months. MPD Fleet Management will act as the custodian of records."</i></p>	<p>Implemented</p> <p>A report was developed, and is now used by MPD to monitor the fuel usage of personnel assigned to leased vehicles.</p>	<p>✓</p>

* Items marked "Not Applicable" are included for information purposes only.

APPENDIX

✓ = Implemented ♦ = In Progress X = Not Implemented Ø = Not Applicable*

<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>Recommendation #2: The Police Department should work with Fleet to assess the feasibility of using separate vehicle codes and applying odometer validations for each leased vehicle.</p> <p>Management Response: <i>“The feasibility of using separate vehicle codes and applying odometer validations for each lease vehicle was analyzed. Although it is possible, it would be impractical given that the associated cost in time to MPD and Fleet staff would outweigh the benefit of implementation. The MPD uses lease vehicles for many reasons, to include the flexibility of exchanging vehicles and assigned drivers. Although a lease vehicle contract is typically a year in duration, the contract allows for frequent exchanges based on mission critical requirements. A lease vehicle maybe exchanged in as little time as a month. As such, it is recommended that the aforementioned report be utilized to track this requirement.”</i></p>	<p>N/A</p> <p>No action was expected, as the department disagreed with the recommendation and no alternative actions were proposed.</p>	<p>Ø</p>

* Items marked “Not Applicable” are included for information purposes only.



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

Date: May 7, 2013

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Custodial Services Contracts – 3rd Follow-up Review

cc: Kari Kent, Deputy City Manager
Marc Heirshberg, PRCF Director

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a 3rd follow-up review of the custodial services contracts audit. The final report is attached. Please feel free to contact me if you have any questions.

3rd FOLLOW-UP REVIEW

CITY AUDITOR

Report Date:	May 7, 2013
Department:	Parks, Recreation, and Commercial Facilities (PRCF)
Subject:	Custodial Services Contracts
Lead Auditor:	Karen Newman

OBJECTIVE

The objective of this review was to determine whether the Parks, Recreation, and Commercial Facilities (PRCF) Department has effectively implemented the last remaining action plan from our 2010 audit of the City's custodial services contracts.

SCOPE & METHODOLOGY

To accomplish our objective, we questioned City staff members and reviewed ID/access card listings and correspondence documents provided by PRCF.

BACKGROUND

In May 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 involving background checks for custodial contractors; changes to City policies and procedures related to background checks; AZ Legal Workers Act (ALWA) compliance monitoring; and documentation and monitoring of performance-related communication with the contractor. In response to the report, the respective departments agreed with the recommendations and presented corresponding corrective action plans.

FOLLOW-UP REVIEWS and CURRENT STATUS

In May 2011, a follow-up review was completed. At that time, we found that the majority of the corrective action plans had been implemented; however, two were still in progress.

In August 2012, a 2nd follow-up review was completed. At that time, we found that one of the corrective action plans had still not been implemented. This remaining action plan had been intended to address issues with building security, to ensure that only authorized contractor employees have access to secure areas.

The PRCF department responded with the following action plan:

Parks, Recreation and Commercial Facilities Department staff created the attached form to use for reconciliation with both Municipal Security and the contractor. Additionally, the attached form was used as a "baseline" and all staff not listed on the form were deleted from the system by Municipal Security staff.

As mentioned above, this form will be utilized and reconciled between the contractor and Municipal Security once immediately before the start of spring training; once mid-season of spring training and once at the end of the spring training season. During non-spring training season when the turnover of employees is much lower, the reconciliation will occur bi-monthly.

CONCLUSION

We verified that the reconciliation described above has been performed at regular intervals, and that ongoing communication is taking place between PRCF, Municipal Security, and the contractor. All action plans from this audit have now been implemented.



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

Date: May 13, 2013

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit Report – Downtown Mesa Association (DMA) Agreements

cc: 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 an audit of the City's agreements with the Downtown Mesa Association. The final report is attached. The report includes several recommendations with responses from management. We will perform a follow-up review in approximately 12 months. Please feel free to contact me you have any questions.

AUDIT REPORT

CITY AUDITOR

Report Date:	May 13, 2013
Department:	Economic Development
Subject:	Downtown Mesa Association (DMA) Agreements
Lead Auditor:	Bill D'Elia

OBJECTIVE

This audit was conducted to determine whether the City and the DMA are operating in compliance with the terms of the current Parking and Special Improvement District #228 (SID) Agreements.

SCOPE & METHODOLOGY

To accomplish our objective, we:

- Reviewed contracts and other relevant documents from the current & prior fiscal years
- Interviewed City and DMA staff members
- Performed other tests and procedures as necessary to meet the audit objective

BACKGROUND

The Downtown Mesa Association (DMA) was established more than 28 years ago and provides an array of benefits to businesses and property owners in the downtown area. They also provide several services on behalf of the City of Mesa, including but not limited to parking management, parking enforcement, and downtown promotion, and public space management. A subsidiary organization, Ultimate Imaginations, Inc. was established to conduct special events and promotions to benefit downtown Mesa and to assist businesses in the area.

DMA's funding comes from their contracts with the City and from the Special Improvement District #288 (SID) Agreement, which provides funding through annual assessments paid by District property owners, the largest of which is the City itself. Parking fees collected by the DMA are remitted directly to the City of Mesa – they are not retained by the DMA.

CONCLUSION

In our opinion, except as noted below, the City and the DMA have substantially complied with the parking and SID agreements. A summary of key observations and recommendations is presented below. For additional details, please see the attached corrective action plans (CAPs).

SUMMARY OF OBSERVATIONS & RECOMMENDATIONS

1. The City has not critically evaluated the DMA's funding requirements. The DMA has accumulated excessive cash reserves which have not been re-budgeted to meet current program needs or otherwise reinvested to benefit the City. We recommend that City staff

work with the DMA to determine the appropriate use for these excess funds. Consideration should be given to re-budgeting the funds for the next contract year, which may provide some temporary relief to the City's General Fund. In the future, City staff should regularly monitor the DMA's revenues and expenditures to ensure that any excess funds are re-budgeted or otherwise used in the best interest of the City.

2. Controls related to parking revenue collection have not been enforced. To ensure revenues are safeguarded from loss, the agreements contain requirements designed to ensure internal controls over parking revenue collections are adequate. We recommend that the City either enforce these requirements or modify the agreements to include alternative controls to ensure City funds are safeguarded from loss.
3. Insurance documentation provided by the DMA has not been closely reviewed to verify compliance with City requirements. The documents on file indicated that the DMA had not maintained the amounts and types of insurance coverage required by the agreements; however, additional documents were later obtained showing the required coverage was in place. We recommend that management require the DMA to provide current and complete certificates of insurance each year; and that City staff review those certificates to verify compliance with the agreements.
4. Agreements do not reflect current expectations. The agreements between the City and the DMA contain inconsistencies and outdated terms, which the City has not enforced and which do not reflect the intent or expectations of the parties. Management should determine which contract terms are important and which ones are not, and should modify future agreements accordingly.

CAP#1: The City has not critically evaluated the DMA's funding requirements.

Observations: Payments to the DMA were not based on expenses, but instead were made at the maximum allowable amounts. As a result, in FY 2011/2012, the DMA retained a surplus of \$153,986 or 19% of their revenue. As of June 30, 2012, the DMA had accumulated a cash balance of \$685,586, which is more than 10 times the cash reserve amount listed on their financial statements for that year.

Criteria: The Parking Agreement between the City and the DMA states:

"DMA agrees to do the following... Provide necessary labor and supplies to be billed to the CITY in an amount not to exceed TWO HUNDRED FOURTEEN THOUSAND SEVEN HUNDRED FORTY-SEVEN DOLLARS AND NO CENTS (\$214,747.00) for FY 2012-2013 in order to adequately administer the Downtown Parking Management program.

... Provide necessary labor, equipment and supplies to be billed to the City not to exceed EIGHTY-TWO THOUSAND TWO HUNDRED TWENTY DOLLARS AND NO CENTS (\$82,220.00) for F/Y 2011-12 [sic] in order to adequately administer the Parking Field Enforcement Program. ..."

The Special Improvement District #228 Agreement between the City and the Downtown Mesa Association states:

"... DMA agrees to establish a contingency fund as a reserve to use as operating funds for the next fiscal year. The reserve will be sufficient to use as operating funds until such time that assessment funds are received by the CITY from the County Treasurer. ..." [Note: According to the DMA's FY 2011/2012 Financial Statements, the required contingency reserve for that year was \$61,697.]

... The total of the private property owner-funded Improvement District Budget is \$263,993, the CITY funded Public Space Management budget totals \$237,288 and \$9,500 for the Downtown Banner and Kiosk Program management for a total of \$510,781 in payments in addition of up to \$10,000 in value in roll-off containers provided by the City. ..."

Comments: The parking agreements indicate that the DMA is to bill the City, up to the applicable "not to exceed" amounts, for expenses incurred to provide services. However, in reality, the City has been invoiced for the maximum amounts each year, without regard to the actual costs incurred by the DMA.

Due to repeated years with surplus funding, and rather than using these funds to further their stated goals, the DMA has accumulated a cash balance of over \$685K. Since most of the program funds are remitted to the DMA at the start of each quarter, there is no need to retain such a large cash balance; and only about one tenth of that amount is needed to float the delay in receiving the SID funds. Furthermore, since the retained funds are not included in subsequent years' budgets, there is no process in place to ensure they are ultimately used in the best interest of the City.

The following data are from DMA's FY 2011/2012 Audited Financial Statements:

Source/(Use) of Funds	Revenues	Expenses	Surplus
Parking Contracts / (Parking Management & Enforcement)	\$ 296,967	\$ (258,182)	\$ 38,785
SID Assessments / (Downtown Promotion)	\$ 267,654	\$ (211,122)	\$ 56,532
City Assessments / (Public Space Management)	\$ 256,788	\$ (198,119)	\$ 58,669
Total:	\$ 821,409	\$ (667,423)	\$ 153,986

- Recommendations:**
- 1-1. 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.
 - 1-2. 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.

Management Response:

- 1-1. Agree
Implementation plan: City staff will regularly monitor DMA's revenues and expenditures for all services.
 City staff will work with DMA to review and adjust the agreements in a manner which more accurately reflect services and expectations.
Implementation date: 7/1/2013
- 1-2. Agree
Implementation plan: 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.
 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.
Implementation date: 7/1/2013

CAP#2: Controls related to parking revenue collection have not been enforced.

Observations: While the DMA does obtain an independent financial statement audit annually, it has been many years since an audit of the parking program was performed. In addition, DMA's cash collection and accounting procedures have not recently been reviewed by the City's Financial Services Department.

Criteria: The Parking Agreement between the City and the DMA states:
*"... An independent audit of the parking program will be furnished to the City Auditor within ninety (90) days following each fiscal year end. ...
... DMA agrees to do the following ... Establish procedures satisfactory to the City Financial Services Department for collecting and accounting for all funds to be collected by DMA pursuant to this agreement. ..."*

Comments: Unlike a financial statement audit, the purpose of the required program audit is to ensure that adequate internal controls are in place to protect City revenues from loss. In FY 2011/2012, \$389,387 in parking revenue was remitted to the City by the DMA. However, since the revenue collection process has not been audited, and the DMA's procedures were not reviewed by Financial Services staff, it is unknown whether adequate internal controls were in place to ensure all funds collected by the DMA were received by the City.

- Recommendations:**
- 2-1. 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.
 - 2-2. 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.

- Management Response:**
- 2-1. Agree
Implementation plan: 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.
City staff will review the established procedures annually.
Implementation date: 7/1/2013
 - 2-2. Agree
Implementation plan: 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.

Implementation date: 7/1/2013

CAP#3: Insurance documentation was not reviewed to verify compliance.

Observations: The insurance documents on file for the DMA indicated that they had not maintained the amounts and types of insurance coverage required by the agreements. They indicated that general and automobile liability limits were \$1M instead of the required \$3M; and that the general liability policy did not contain the required advertising injury and contractual liability coverage. However, the DMA was later able to provide additional documents showing that an umbrella policy was in place for the required coverage.

Criteria: The Parking Agreement between the City and the DMA states:

" ... The DMA will carry comprehensive general liability insurance policy coverage of a minimum of \$3,000,000 per occurrence for each incident and a minimum of \$3,000,000 in the aggregate, pertaining to bodily injury and property damage and inclusive of personal/advertising injury and contractual liability. DMA will maintain such policy in full force and effect during the entire term of the Agreement. ...

The DMA will carry an Automobile Liability insurance policy coverage of a minimum of \$3,000,000 per occurrence for each incident and a minimum of \$3,000,000 in the aggregate. DMA will maintain such policy in full force and effect during the entire term of the Agreement. ..."

Comments: City staff had not closely reviewed the insurance documentation provided by the DMA to ensure all of the required coverage was in place. Verifying insurance policies is an important part of contract monitoring, because failure to maintain the required coverage exposes the City to increased risk of loss.

Recommendations: 3-1. 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.

Management Response: 3-1. DMA has maintained and currently carries the required amounts of insurance in accordance with the City's Agreement.

City staff will ensure appropriate certificates of insurance are on file each year. They will also verify that the insurance complies with the agreements.

Annually, city staff will review the current insurance coverage with the City's risk manager.

CAP#4: Agreements do not reflect current expectations.

Observations: The agreements between the City and the DMA contain inconsistencies and outdated terms, which the City has not enforced and which do not reflect the intent or expectations of the parties.

Criteria: To serve and protect the interests of all parties, the terms of any contract between them should accurately reflect the intent of those parties, and those terms should be actively enforced.

Comments: The issues noted during this audit, along with various minor inconsistencies and outdated terms found in the agreements, indicate that the DMA agreements need to be critically evaluated and updated to ensure that they accurately reflect the intent of all parties.

Recommendations: 4-1. 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.

Management Response: 4-1. DMA staff agrees that the formats and agreements should be updated to reflect the new format.

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.



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

Date: May 2, 2013

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit of the City of Mesa Cemetery – Final Report

cc: Kari Kent, Deputy City Manager
Marc Heirshberg, PRCF Department Director

Attached is the final report on our Audit of the City of Mesa Cemetery. The report includes 3 Corrective Action Plans (CAPs) with responses from management. We will perform a follow-up review in approximately 12 months to determine whether the action plans have been implemented. The report will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. If you have any questions, please feel free to contact me at x3767.

AUDIT REPORT

CITY AUDITOR

Report Date: May 2, 2013
Department: Parks, Recreation & Commercial Facilities (PRCF)
Subject: City of Mesa Cemetery
Lead Auditor: Karen Newman

OBJECTIVES

The objective of this audit was to evaluate the adequacy of the Cemetery's internal controls related to revenues, inventory, and other resources.

SCOPE & METHODOLOGY

To accomplish our objective, we interviewed key personnel, observed Cemetery operations and related PRCF administrative processes, and reviewed financial data for fiscal years 2010 to 2013 YTD. We also evaluated internal controls related to the Christmas Wreath Program, the Agreement of Sale process, and the interment process.

BACKGROUND

The City of Mesa Cemetery is a 55 acre facility with annual revenues of approximately \$1.2 million. The Cemetery is staffed with an Operations Coordinator, five Groundskeepers, one full-time Customer Service Specialist and 1 part-time Customer Service Specialist. Together, these employees manage approximately 350-400 burials per year. Other activities include pre-need sales, which average about 100 per year, and wreath sales, which average about 125 per year.

Due to the small size of the Cemetery's office staff, maintaining adequate cash handling controls is a challenge. Therefore, they are only able to accept checks, money orders, or credit/debit cards on site. Customers who prefer to pay with cash may do so at the City's Business Office at 55 N. Center St. When a Cemetery plot is sold on a pre-need basis, there is also an option to finance the purchase for a maximum of 2 years at an interest rate of 6 percent. All revenues are reconciled by staff at PRCF Administration.

CONCLUSION

In our opinion, the Cemetery's internal controls related to revenues, inventory, and other resources are adequate; however, we did identify a few opportunities for improvement. A summary of key observations and recommendations is presented below. For additional details, please see the attached corrective action plans (CAPs).

SUMMARY OF OBSERVATIONS & RECOMMENDATIONS

1. Cemetery database needs improvement. Staff should work with the City's Information Technology Department to improve the security, accuracy and reliability of the database used by the Cemetery to record transactions. In addition, to the extent possible and practical, alternative options for recording transactions, maintaining customer accounts, and managing grave inventory should be explored.
2. Controls over voided invoices need improvement. Management should ensure that every voided invoice is properly approved, logged, and noted in the database. Each void should include a detailed explanation. In addition, PRCF Admin staff should periodically review the sequential numbering of invoices to ensure that all voided invoices have been properly recorded.
3. The billing process for sales agreements needs improvement. PRCF should work with the City's Accounting Division to ensure that all Cemetery 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.

CAP#1: Cemetery database needs improvement.

Observations: Functional limitations and the lack of a more secure database system have resulted in errors in recording transactions and reporting financial information. For example:

1. Overpayment was accepted on an invoice, due to limitations on the tracking of financial transactions.
2. Monthly financial reports produced by the database are not always accurate.
3. Transactions have been overwritten when new invoices were generated.

Comments: Although the Cemetery's processes for collecting, recording and reporting revenue are adequate, there are weaknesses and vulnerabilities in the database used to record financial transactions. As a result, reports may not be accurate, accounts may not be properly managed, and there is an increased risk that errors or fraud could occur without being detected.

Recommendations: 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: 1-1. Agree.
Implementation plan: 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.

Implementation date: 6/1/2013

CAP#2: Controls over voided invoices need improvement.

Observations: The majority of voided invoices were appropriately documented and approved; however, we noted some cases in which required procedures were not followed. Examples include:

- Voided invoices not logged, logged without a detailed reason, or logged out of sequence.
- Comments not in the database indicating the invoice was voided.
- Invoices voided without approval.

Comments: Management Policy #210, Section VI.B3 states: "*VOIDS AND REFUNDS SHOULD BE APPROPRIATELY DOCUMENTED AND APPROVED*". In addition, the City of Mesa Cemetery Procedures Manual includes detailed procedures to be followed when voiding an invoice.

Voided invoices are commonly used to conceal fraudulent activity. Inadequate documentation/approval of a voided invoice increases the risk that such a fraud could occur without being detected.

Recommendations:

- 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.
- 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:

- 2-1. Agree.
Implementation plan: 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.

Implementation date: Ongoing.

- 2-2. Agree.
Implementation plan: PRCF Administrative staff will review this process as part of our internal audit procedures to ensure accuracy.

Implementation date: Ongoing.

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

Observations: As of this writing, the process for billing Cemetery customers for sales agreements has not yet been fully integrated with the City's new financial system. For example:

- Existing customer balances were not completely converted into the new accounting system.
- Interest on customer balances is not automatically calculated and applied.
- Monthly invoices are not automatically generated based on a contract billing date.
- Payments have not been applied to customer accounts in a timely manner.

Comments: Agreement of Sale contracts should be automatically invoiced, monthly interest charges should be automatically calculated and applied, and payments should be applied in a timely manner.

Inaccurate and/or untimely billing and account management negatively impacts both customer satisfaction and revenue collection/recording.

Recommendations: 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: 3-1. Agree.
Implementation plan: 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.
Implementation date: 1/1/2014.