



## AUDIT, FINANCE & ENTERPRISE COMMITTEE

November 4, 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 November 4, 2013, at 3:33 p.m.

### COMMITTEE PRESENT

Alex Finter, Chairman  
Scott Somers

### COMMITTEE ABSENT

Dave Richins  
Christopher Brady, Ex Officio

### STAFF PRESENT

Alfred Smith  
Alex Deshuk

Chairman Finter excused Committeemember Richins from the entire meeting.

Chairman Finter stated that with the upcoming National League of Cities (NLC) convention, other meetings and the holidays, he wanted staff to present these items to the Committee now as opposed to waiting until next year. He also urged that staff meet with Committeemember Richins to update him on these matters and solicit his input.

#### 1. Items from citizens present.

There were no items from citizens present.

#### 2-a. Hear a presentation, discuss and provide direction on a SurePay Utility Payment Incentive Program.

Business Services Director Ed Quedens introduced Customer Information and Billing Administrator Priscilla Bertling, who was prepared to address the Committee.

Ms. Bertling displayed a PowerPoint presentation (**See Attachment 1**) and reported that staff proposes to provide a monetary incentive to City customers who sign up for SurePay, an automatic bank draft monthly utility bill payment, and Electronic billing (E-bill Notification). She explained that the program would reduce the amount of credit card fees that the City incurs, which equates to more than \$2 million annually. She stated, in addition, that the cost to produce and mail utility bills, which is estimated at \$775,000 annually, would also be reduced. She also noted that the cost to send an E-bill Notification is less than one-tenth of a cent and added that payments received via SurePay are free to the City.

Ms. Bertling briefly highlighted the guidelines of the program. (See Page 3 of Attachment 1) She indicated that the City would offer a one-time \$20 credit to customers who sign up for SurePay and E-bill Notification. She also commented that one option staff was considering was that customers would agree to remain on the program for one year before they would receive the credit.

Ms. Bertling, in addition, discussed various benefits of the program. (See Page 4 of Attachment 1) She advised that the City could promote the E-bill Notification as a "Going Green" initiative, which would help the environment and save the City the cost to produce and mail utility bills. She also reviewed the potential recurrent savings to the City when utility customers sign up for the program. (See Page 5 of Attachment 1)

Mr. Quedens stated that staff attempted to design a program that would be "pretty close to neutral" in terms of cost versus savings to the City. He pointed out, however, that the program cost is a one-time cost, whereas the potential savings would be cumulative.

Chairman Finter commented that if Mesa pays more than \$2 million annually in credit card fees, it might be appropriate for the City to implement a policy in the future that credit cards will no longer be accepted to pay a customer's utility bill.

In response to comments from Chairman Finter, Ms. Bertling explained that City utility customers can already pay their bills with an E-check, but clarified that SurePay would be an automatic withdrawal from a person's checking account.

Mr. Quedens remarked that when the City first accepted credit cards for utility payments, it was considered "a great idea." He noted, however, that as the usage has increased, so have the City's costs. He stated that staff's proposal is "just the first step," and added that depending on the success of the program, it might be appropriate to implement certain modifications, such as adopting a policy that the City would no longer accept credit cards for utility payments.

Discussion ensued relative to the fact that neither the City nor a utility customer would incur any costs to set up a SurePay bank draft; that customers who do not have bank accounts would not be eligible for the program; and that those individuals normally come to the business office and pay their bills in cash.

Chairman Finter stated that he would propose that the City launch the program and then establish a specific date, such as July 1, 2014, after which time the City will no longer accept credit card payments for utility bills. He suggested that perhaps staff would be more successful with the program if the utility customers were informed of such changes.

Committeemember Somers commented that he would prefer that the City's Public Information Office (PIO) first send out a press release regarding Chairman Finter's proposal and also disseminate the information to various media outlets.

Mr. Quedens responded that the credit card users who would most likely object to Chairman Finter's proposal would be those who are receiving points and other incentives from the credit card companies.

Committeemember Somers further stressed the importance of the City having the necessary protections in place to ensure that the utility customers who sign up for the program would not have their bank information compromised.

Manager of Technology and Innovation Alex Deshuk clarified that most banks consider debit cards and credit cards under the same liability, which is usually \$50 that they will waive if a fraudulent act has occurred.

Mr. Quedens, in addition, remarked that by the City eliminating the credit card numbers that it has on file, it would improve its payment card industry compliance.

Chairman Finter suggested that this item be forwarded on to the full Council for consideration. He reiterated that he would prefer that the City no longer accept credit card payments by July 1, 2014. He added that in the meantime, staff could address the cyber security issues that Committeemember Somers has raised.

Committeemember Somers concurred that from a fiscal perspective, the program is a great idea for the City and the utility customers. He noted, however, that the City is in the "customer service business," and said that even though the City would save money if the credit card fees were eliminated, there may be some opposition from a handful of utility customers who are no longer able to use a credit card to pay their bill.

Mr. Quedens clarified that the City would continue to accept credit cards for one-time transactions. He explained that if a customer did not have sufficient funds in their bank account, the City would prefer to receive the payment through a credit card. He also stated that it was the recurrent month-after-month transactions that are impacting the City with the credit card fees. He added that the City does not currently assess a fee for the month-to-month transactions.

Committeemember Somers stated that perhaps it would be appropriate for the City to implement a fee for the month-to-month transactions to account for the fees that the City is required to pay to the credit card companies.

Mr. Quedens pointed out that staff's thought process with respect to offering an incentive with the program was to evaluate "where the incentive is going." He said that staff would then bring back options to address the permanent solution of not accepting credit cards, implementing a convenience fee or continuing to absorb those costs.

Chairman Finter suggested that staff move forward with the incentive program and stated that in the near future, the Committee could consider the issue of no longer accepting credit cards for utility payments. He added that once the Committee explores this matter further, it could then be forwarded on to the full Council for consideration.

Committeemember Somers concurred with Chairman Finter's suggestion.

Mr. Quedens stated that staff would be happy to move forward in that manner.

Chairman Finter thanked staff for the presentation.

2-b. Hear a presentation, discuss and provide direction on Third-Party Payment Sites and Payment Kiosks.

Mr. Quedens introduced Business Licensing and Revenue Collections Administrator Tim Meyer, who was prepared to address the Committee. He explained that over the years, staff has received multiple inquiries regarding the possibility of the City offering expanded options to allow the payment and management of utility bills on a 24/7 basis. He stated that program costs and options would be determined through a Request for Proposals (RFP) process. He added that staff was seeking the Committee's feedback with respect to such options.

Mr. Meyer displayed a PowerPoint presentation (**See Attachment 2**) and briefly discussed examples of kiosks and payment centers. He advised that Circle K currently has payment kiosks installed at various stores, which allow people to pay various bills on a 24/7 basis. (See Page 3 of Attachment 2) He stated that one of the features of the kiosks is that they accept cash and issue receipts for the payments. He added that many businesses have taken advantage of the payment sites within the Circle K network.

Mr. Meyer indicated that Circle K and other retailers already have the hardware and software in place at their stores. He noted that if the City decided to pursue such a proposal, it would agree to utilize the services of one of the retailers and also work out the details between the City's Information Technology Department (ITD) and the vendor to ensure that the data could be handled in a secure manner. He further remarked that most of the vendors charge a convenience fee, such as \$2.00, which would be addressed as part of the RFP process.

Mr. Meyer, in addition, displayed a photograph of a Salt River Project (SRP) kiosk located at a Safeway store. (See Page 4 of Attachment 2) He said that SRP has been very successful in deploying the kiosks and added that the payment sites have significantly reduced the utility's "in-office traffic."

Mr. Meyer also advised that staff considered the possibility of installing a payment kiosk outside of the building in which the Customer Service Operations is located. He explained that it would be necessary for the City to purchase the kiosk, which costs approximately \$40,000, and would also incur various servicing fees.

Committeemember Somers expressed support for the proposal which, in his opinion, would enhance the utility customers' ability to pay their bills whenever they chose to do so.

Chairman Finter concurred with Committeemember Somers' comments and directed staff to move forward with the RFP process.

Chairman Finter thanked staff for the presentation.

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

1. Animal Control

City Auditor Jennifer Ruttman displayed a PowerPoint presentation (**See Attachment 3**) and acknowledged the efforts and hard work of the small group of staff members that comprise the Animal Control Division (ACD). She reported that the audit revealed that the ACD had

appropriate controls and procedures in place with respect to customer service and financial risk. She explained that it was recommended that staff follow up on cases that “may have slipped through the cracks.” She noted that as a result of such recommendation, staff developed a report that would identify those cases in order to ensure follow-up in a timely manner.

Chairman Finter concurred that the ACD is understaffed and said he would hope that the matter could be addressed sometime in the future.

## 2. Change Funds

Ms. Ruttman displayed a PowerPoint presentation (**See Attachment 4**) and reported that this audit has been conducted quite frequently, since it is a yearly request of the Council and an area that “appears we will never run out of findings.”

Ms. Ruttman explained that the findings relate primarily to those staff members who are responsible for handling change funds, but do not have a clear understanding of the policies and procedures related to such funds. She noted that her office was surprised by the lack of due diligence of the fund custodians, as well as insufficient management oversight.

Ms. Ruttman stated that recommendations were made that management follow up with staff on a regular basis to ensure that they understand the policies and procedures. (See Page 3 of Attachment 4) She also highlighted various recommendations that were made to the Accounting Division in this regard. (See Pages 3 and 4 of Attachment 4) She added that Management Policy 203 is in the process of being updated, which will include the separation of the policies that pertain specifically to Petty Cash and/or Change Funds.

## 3. Emergency Management

Ms. Ruttman displayed a PowerPoint presentation (**See Attachment 5**) and remarked that in 2012, an audit was conducted of the Mesa Fire and Medical Department’s (MFMD) Emergency Management Division. She stated that this agenda item was a follow-up audit to determine whether the Corrective Action Plans (See Pages 4 and 5 of Attachment 5) developed by the MFMD, in response to that audit, were effectively implemented.

Ms. Ruttman briefly discussed the items in the Corrective Action Plans that the MFMD did not fully implement. She explained that with respect to the matter of performing inventories, a March 2013 inventory was, in fact, completed, but said that her office had some issues with respect to the manner in which it was performed and made certain recommendations. (See Page 3 of Attachment 5)

Ms. Ruttman, in addition, reported that the MFMD had not developed processes for Grant Asset Disposal or Grant Asset Utilization, as well as adding some items to the database that were not completed since the 2012 audit. She noted that recommendations were made for those procedures to be implemented and added that her office would follow up with the MFMD to ensure that it complied with such recommendations.

Responding to a question from Committeemember Somers, Ms. Ruttman clarified that the individual City departments are responsible for administering their own grants. She said that the

Grants Coordinator can offer assistance and advice to other departments relative to grants and “serves as a leader from a central location.”

Committeemember Somers commented that he was under the impression that it was the role of the Grants Coordinator to provide expertise to the various departments to ensure that they manage and close out their grants in an appropriate manner.

Ms. Ruttman responded that to the extent the departments take advantage of the Grants Coordinator as a resource, that would be true.

Assistant Fire Chief Cori Hayes addressed the Committee and reported that closing out the grants has not been the MFMD’s issue. She explained that the MFMD’s grants have met all federal and state requirements.

Chief Hayes pointed out that the audit findings occurred as a result of a large amount of grant-funded equipment that was purchased over the last ten years. She advised that when the MFMD obtained its database that tracks those assets, it was up to date from 2004 and beyond, but noted that the older assets had not been added to the database. She stated that tracking those assets was the responsibility of the MFMD as opposed to the Grants Coordinator. She added that staff has been working to resolve that issue.

In response to a question from Chairman Finter, Chief Hayes clarified that with regard to the disposal of old grant assets, staff followed the City’s process in that regard. She explained that staff has implemented the City’s disposal process policy into Standard Operating Procedures (SOPs).

Chief Hayes further remarked that concerning the tracking of assets, one of the challenges the MFMD has encountered is that there is only one staff member in the warehouse who is charged with such responsibilities. She pointed out that the person not only receives the equipment and enters the asset into the database, but also retrieves the old documentation for the equipment that was purchased prior to when the Emergency Management Division obtained its database in 2009.

Responding to a question from Committeemember Somers, Ms. Ruttman stated that in her opinion, there was nothing concerning this audit that would put the City at risk relative to grant reporting requirements at the state or federal level.

#### 4. Real Estate Leases

Ms. Ruttman displayed a PowerPoint presentation (**See Attachment 6**) and explained that this audit was conducted to determine whether leases are awarded and administered in compliance with City policies and lease terms. She recognized the small staff in the Real Estate Services Division for their dedication and professionalism in this regard.

Ms. Ruttman reported that at the time of the audit, the Real Estate Services Division was responsible for managing approximately 76 property leases, including 36 leases for sites used by communications companies for wireless communications towers or similar equipment.

Ms. Ruttman explained that one recommendation was made to the City Manager's Office that certain requirements and policies applicable to leases were out of date and should be revised. She stated that the City Manager's Office concurred with the recommendation. She noted that it was also recommended to the Real Estate Services Division that when an inspection on a property is performed, the date, the inspector's name and the results be documented in the lease file.

Chairman Finter thanked Ms. Ruttman for her presentation.

2-d. Hear a presentation and discuss the 2013 Electric Power Request for Proposals and resulting contracts.

Energy Resources Department Director Frank McRae introduced Energy Resources Coordinator Tony Cadorin, who was prepared to address the Committee.

Mr. Cadorin displayed a PowerPoint presentation (**See Attachment 7**) and spoke regarding the City of Mesa's 2013 Electric Power Request for Proposals (RFP). He highlighted a diagram illustrating Mesa's electric utility system, which includes the generation of electricity, the transmission of electricity by the Western Area Power Administration (WAPA) to the City, and the City delivering the electricity to its 16,000 customers. (See Page 2 of Attachment 7)

Mr. Cadorin briefly reviewed Mesa's current supply portfolio (See Page 3 of Attachment 7) and noted that 20% of the City's energy comes from the Colorado River in the form of renewable hydropower. He stated that the vast majority of Mesa's resources are derived from long-term contractual market resources (3 to 5-year contracts) with energy suppliers that are procured through the RFP process. He added that the remainder of the resources are short-term "over the counter" (OTC) market purchases by WAPA on the City's behalf.

Mr. Cadorin referenced a graph titled "Peak Day Demand and Supply (July or August, 84 MW)", which illustrates the City's electricity supply on a peak day. (See Page 4 of Attachment 7) He pointed out that the RFP supplies the power (base supply) identified on the graph in purple, which was formerly supplied by Shell Energy for 10 megawatts (MW) year round. He stated that the base supply accounted for 25% of the City's energy supplies annually and was also one of the least expensive.

Mr. Cadorin further remarked that the RFP also sought to replace a "dispatchable" peak resource. He explained that the day before the power is needed, if the market prices were higher than this resource to use, City staff could request that Shell "turn on the generator" in order to prevent price spikes in the market.

Mr. Cadorin stated that with respect to the RFP, staff determined that it was unnecessary to have as much power during the off-peak months that was formerly supplied by Shell, since Mesa's electric customers would be using less power during the peak times. He stated that staff determined that it would be appropriate to "sculpt" the base resource in order to better match the City's yearly power supply needs. He noted that as a result, the City limited its off-peak purchases, which were sold to other entities in the market. He added that the City maintained its power supplies during the summer months in order to avoid peak electric prices.

Mr. Cadorin provided a short synopsis of the RFP process as follows: that in May of this year, the City issued the RFP to 37 suppliers in the Southwest; that staff evaluated the proposals, including five price submittals; that in early October, Council approval of the contract was obtained; that the City and supplier have completed negotiations and final pricing; that the base supply was awarded to Shell Energy for five years; that there was an overall cost increase of \$165,000; that if staff had not pursued the "sculpting process," the City would have incurred an additional increase of \$220,000 annually; that in May when staff first received pricing, they determined that it was somewhat high and postponed execution of the transactions until October in order to save substantial amounts of money for the rate payers; and that Mesa's new dispatchable resource contract is much more favorable for use and helps to limit peak market exposure. (See Page 7 of Attachment 7)

Committeemember Somers stressed the importance of the media, such as Gary Nelson of the Arizona Republic, being made aware of staff's efforts to save money for the City's electric rate payers.

Chairman Finter suggested that it would also be appropriate for staff to apprise the entire Council regarding this item and staff's hard work.

Chairman Finter thanked staff for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 4:24 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 4<sup>th</sup> day of November, 2013. I further certify that the meeting was duly called and held and that a quorum was present.

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DEE ANN MICKELSEN, CITY CLERK

pag  
(attachments -7)





# **Sure-Pay Bank Draft and E-bill Incentive**

**Audit, Finance & Enterprise Committee  
November 4, 2013**



# Purpose

- Provide a monetary incentive to customers who sign up for SurePay Automatic Bank Draft Payment and Electronic Billing
- Reduce credit card fees and cost of paper bills
  - Approx. \$775,000 annually for paper bills
  - Postage costs are going up
  - Over \$2 million annually in credit card fees
  - Credit card use & related fees continue to increase



# Program Proposal

- A One-time \$20 credit to sign up for SurePay Bank Draft and Electronic Billing
- Program guidelines would include:
  - A limited program sign up time
  - Agreement to remain on the program for 1 year
  - Offer to both Residential and Commercial customers
- Review program quarterly for adoption rate and success in cost containment and potential expansion to other programs



# Benefits

- Credit Card Fees - Savings to the City
- E-bill - A “Going Green” initiative helping the environment and saves the City the cost to produce and mail the bill
- Savings to the City result in savings to all our utility customers



## Potential Recurring Savings

### Program Cost

	<u>1%</u>	<u>2%</u>	<u>3%</u>	<u>5%</u>	<u>10%</u>
\$20	\$23,180	\$46,370	\$69,560	\$115,920	\$231,860

### Potential Savings (1-Year)

	<u>1%</u>	<u>2%</u>	<u>3%</u>	<u>5%</u>	<u>10%</u>
Credit Card \$21,744	\$43,500	\$65,244	\$108,744	\$217,488	
E-Bill	<u>\$7,750</u>	<u>\$15,500</u>	<u>\$23,250</u>	<u>\$38,750</u>	<u>\$77,500</u>
Total	\$29,494	\$59,000	\$88,494	\$147,494	\$294,988



# Questions?



# **City of Mesa**

## **Audit, Finance & Enterprise Committee Kiosks and Payment Centers November 4, 2013**

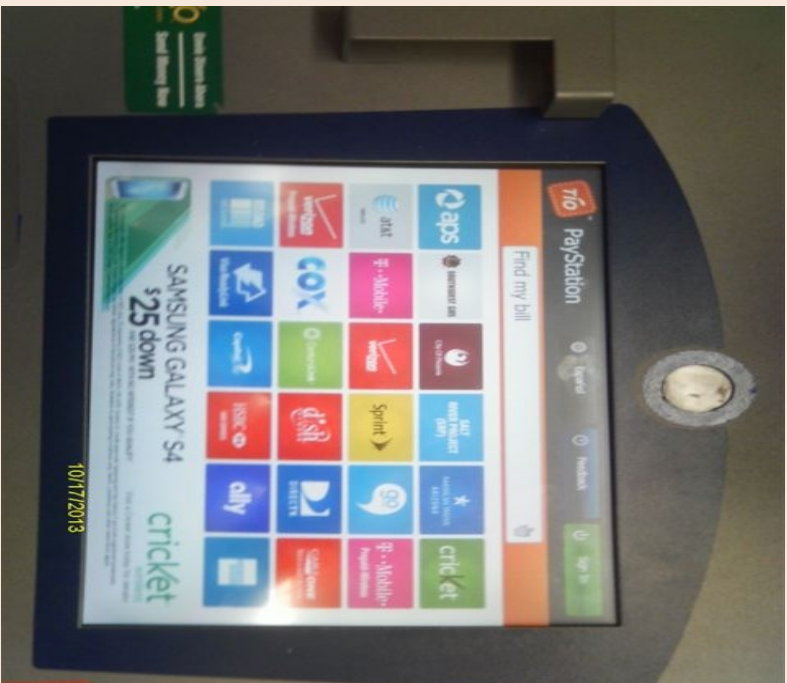


# Program Goals

**Provide expanded options to allow for 24x7 payment and management of utility bills**

- **Currently available through IVR and Web**
- **Program adds Kiosks and Alternative Payment Locations (merchant cashiers)**
- **Program costs and options to be determined by an RFP**





# Circle K Kiosk



# SRP Kiosk



**Kiosks**

**Questions?**



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

Date: November 4, 2013

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit Report – Animal Control

cc: Natalie Lewis, Assistant to the City Manager  
Diane Brady, Animal Control Supervisor

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed an audit of the City's Animal Control Division. The final report is attached. The report includes one Corrective Action Plan (CAP) and a response from management. We will perform a follow-up review in approximately 12 months. Please feel free to contact me with any questions or concerns.

## AUDIT REPORT

CITY AUDITOR

**Report Date: August 1, 2013**  
**Department: Neighborhood Outreach and Animal Control**  
**Subject: Audit of Animal Control**  
**Lead Auditor: Karen Newman**

### **OBJECTIVES**

The objective of this audit was to evaluate compliance with and efficiency/effectiveness of policies, procedures and processes.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we interviewed key personnel, and reviewed City, County and State laws and Animal Control processes and cases for the fiscal years 2012 to 2013 YTD.

### **BACKGROUND**

Mesa Animal Control as a part of the Neighborhood Outreach and Animal Control department provides services for animal welfare and control and public health and safety in the City. Animal Control investigates animal bites, cruelty, barking dog disturbances and other complaints related to pets and wildlife. Animal Control also enforces City and County animal control ordinances such as leash laws. It is the policy of the Animal Control Unit to provide the citizens of Mesa with courteous, professional and effective animal control, and to ensure the rights of animal owners and non-owners are protected and served.

### **CONCLUSION**

Overall, it is our opinion that the Animal Control department does comply with efficiency/effectiveness of policies, procedures and processes however; we did identify an opportunity to further reduce risks and improve productivity, as noted in the recommendation listed below. For additional details, please see the attached Corrective Action Plan (CAP).

### **RECOMMENDATION**

1. Animal Control Management should perform periodic reviews of all animal control cases to ensure timely and proper follow up. (See CAP #1)

## **CAP#1: Management Review of Animal Control Cases**

**Observations:** The majority of animal control cases are followed up on timely and appropriately however, we noted the following items:

1. When testing case status activity we found that several cases remained in "Received" and "Active" status and were not followed up on as timely as current cases.
2. Animal Control citations are issued properly however they are not always issued timely.

**Comments:** Untimely follow up of animal control cases may lead to violations not being handled properly and lack of animal control in the City.

**Recommendations:** Animal Control Management should perform periodic reviews of all animal control cases to ensure timely and proper follow up.

**Management  
Response:**

Agree.

Action Plan: At least two staff members will run weekly case status reports of both ACT (active) and REC (received) reports to ensure timely and appropriate follow up and closure. This will also allow staff to monitor additional follow up entries such as citations, quarantines, inspections, etc. to be conducted in a timely manner.

Implementation Date: 8/2013



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

Date: November 4, 2013  
To: Audit, Finance, and Enterprise Committee  
From: Jennifer Ruttman, City Auditor  
Re: Audit Report – Citywide Change Funds/Cash Handling

In accordance with the Council-approved Audit Plan, the City Auditor's Office has completed a citywide audit of cash change funds. The report is attached. Please don't hesitate to contact me if you have any questions.

## AUDIT REPORT

CITY AUDITOR

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<b>Report Date:</b>	<b>November 4, 2013</b>
<b>Department:</b>	<b>Citywide</b>
<b>Subject:</b>	<b>Change Funds/Cash Handling</b>
<b>Lead Auditor:</b>	<b>Bill D'Elia</b>

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### **OBJECTIVE**

This audit was conducted to determine whether adequate internal controls are in place and operating effectively to safeguard change funds throughout the City.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we:

- Conducted unannounced counts of 20 cash change funds throughout the City.
- Reviewed citywide and departmental cash handling policies and procedures.
- Interviewed City staff members.
- Performed other tests and procedures as necessary to meet the audit objective.

### **BACKGROUND**

Due to the high vulnerability of cash, the City Council has asked our office to perform periodic audits to ensure the City is minimizing the risks associated with cash operations. The City primarily utilizes cash in two ways – petty cash and change funds. These two fund types differ in that change funds are used in the revenue receiving process, while petty cash funds are used for expenditures. Change funds should never be expended or depleted for any reason, and should be equal to their established value at all times. This audit focused solely on change funds.

There are 23 change funds used to make change during cash transactions with customers at 20 different locations throughout the City. Each change fund has one or more custodians, who are responsible for ensuring the fund is managed appropriately and safeguarded from loss. Management Policy 210 – Cash Handling (MP210) governs the use of these funds citywide and sets forth specific requirements designed to ensure there is individual accountability, separation of duties, physical security, reconciliation of accounts, and management oversight/monitoring. Departments are responsible for developing additional cash handling procedures that apply uniquely to their own operational requirements, and City policy requires that those procedures be approved by the Accounting division. Every employee who handles cash is required to fully understand and comply with both citywide and departmental cash handling policies and procedures.



## **CONCLUSION**

Overall, we found a net variance of approximately -4% for all change funds counted. While this number does not represent a material loss to the City, and we found no evidence of fraud or theft, it is our opinion that the variances were due to a lack of due diligence by fund custodians combined with insufficient management oversight. For example:

- 2 custodians did not know how much cash they were supposed to have.
- 3 custodians could not locate their entire funds when asked to do so.
- Many custodians did not fully understand the City's cash handling policy (MP 210).
- The cash handling practices of these custodians, and several others as well, were not actively monitored or regularly reviewed by management.

Furthermore, we found that the Accounting division has not maintained the policy; has not worked with departments to develop and deliver cash handling training (which is required at least every 2 years); and has not taken an active role in ensuring that departmental cash handling procedures are adequate.

In our opinion, internal controls have not been enforced, leaving the City vulnerable to loss. Fortunately, we did not find that any significant losses have occurred. Our recommendations to reduce the risk of losses in the future are listed below.

## **RECOMMENDATIONS**

We recommend that all departments with change funds do the following:

1. Reconcile all change funds daily to their established values, and immediately report and account for any overage or shortage that is discovered.
2. Manage all funds in a manner that maintains individual accountability at all times.
3. Immediately record all cash received in a point of sale system, and implement additional controls as needed to ensure all cash is recorded.
4. Submit departmental cash handling procedures to the Accounting Division for approval.
5. Ensure that employees who handle cash are trained and fully understand all applicable policies and procedures. These employees should be required to sign an annual acknowledgment (in conjunction with the PAF process), stating that they understand and agree to comply with these procedures.
6. Ensure that reconciliations and deposit preparations are periodically reviewed by management.

We recommend that the Accounting Division do the following:

1. Require all departments with cash handling operations to submit detailed written cash handling procedures to Accounting for approval.
2. Require prospective cash custodians to acknowledge receipt and understanding of a policy that clearly outlines their responsibilities regarding that fund.
3. Review and revise Management Policies 203 and 210.

### **MANAGEMENT RESPONSE**

All of the impacted departments responded to our recommendations with corrective actions to ensure compliance with citywide and departmental policies in the future. In addition, the Accounting Division provided the following response:

*The City concurs with the Audit recommendations and will ensure that process and procedures are in place over the safeguarding of change funds. Specifically we will work to ensure departments are following Management Policy 210- Cash Handling, that all change funds are reconciled on a daily basis, and that all cash received in the point of sale system is immediately recorded.*

*Management Policy 203 is in process of being updated. The update includes the separation of the policies that pertain specifically to Petty Cash and/or Change Funds. The updated policy will include reviewing Policy 203 on an annual basis with all Petty Cash and Change Fund Custodians.*

*In addition, the Accounting Division will update the cash handling training to include an acknowledgement of Management Policy 210 and will be obtaining and reviewing all cash handling policies for approval.*



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

Date: November 4, 2013

To: Audit, Finance & Enterprise Committee

cc: John Pombier, Deputy City Manager  
Harry Beck, Fire Chief  
Jim Bloomer, Assistant Fire Chief

From: Jennifer Ruttman, City Auditor

Subject: Audit Follow-up Review – MFMD Emergency Management

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of our 2012 audit of the MFMD Emergency Management Division. The final report is attached. The report includes 3 recommendations with responses from management. Please feel free to contact me you have any questions.

**FOLLOW-UP REPORT**

**CITY AUDITOR**

<b>Report Date:</b>	<b>August 29, 2013</b>
<b>Department:</b>	<b>Mesa Fire &amp; Medical Department (MFMD)</b>
<b>Subject:</b>	<b>Emergency Management</b>
<b>Lead Auditor:</b>	<b>Dawn von Epp</b>

**OBJECTIVES**

The objective of this follow-up review was to determine whether the corrective action plans developed by the department in response to our 2012 audit of Emergency Management have been effectively implemented.

**SCOPE & METHODOLOGY**

To accomplish our objective, we interviewed key personnel; reviewed federal, state and city grant requirements; reviewed grant-related documentation; and performed other audit tests as required.

**BACKGROUND**

In April 2012, we issued a report on our audit of the Mesa Fire & Medical Department's Emergency Management Division. The objectives of that audit were to verify compliance with grant requirements, statutes and policies; evaluate internal controls related to procurement, reimbursement and asset management; and determine whether perishable items are adequately monitored to ensure appropriate and timely disposition.

Based on our audit findings, we made eight recommendations for improvement, primarily in the areas of asset management and management oversight. The MFMD prepared action plans in response to each of our recommendations. For a detailed list of these action plans, and our assessment of their implementation status at the time of this review, please see the attached Appendix. A summarized status report is shown below, followed by a new list of recommendations and the department's responses.

**CONCLUSION**

In our opinion, at the time of this review, the implementation status for the eight corrective action plans can be summarized as follows:

<b>Status</b>	<b>Count</b>
Effectively implemented	4
Implemented, but needs improvement	1
Partially implemented	1
Not implemented	2

## **RECOMMENDATIONS**

1. To the extent possible, segregate the duties associated with performing periodic inventory counts from those associated with maintaining the inventory records and managing the physical assets. Segregation of duties protects not only the City and its grantors, but also protects the employee. If this is not possible, additional compensating controls should be implemented to mitigate the associated risks.
2. All required information related to grant-funded assets with a cost of \$5,000 or more should be added to the current asset management database.
3. Develop and ensure compliance with the following new procedures:
  - a. Grant Asset Disposal – Develop a procedure that ensures compliance with the Arizona DOHS Equipment Disposition Guidance issued in September 2012, as well as addressing tracking grant funded assets that have the potential to be disposed of through methods outside of Fire EM/WMD processes.
  - b. Grant Asset Utilization – Develop a procedure that identifies grant funded assets that are not being utilized for their intended purpose, and ensures notification to Arizona DOHS, per grant requirements.

## **MANAGEMENT RESPONSE**

### **Recommendation #1:**

Beginning immediately, inventories will be performed perpetually with individual or multiple locations counted each month, following a set schedule. WMD inventories will be conducted by Fire Resource personnel and Fire Resource inventories will be conducted by WMD personnel.

### **Recommendation #2:**

All items have been added to the system.

### **Recommendation #3:**

- a. Grant Asset Disposal – Per Arizona DOHS Equipment Disposition Guidance, when equipment is decommissioned the status will be updated on the AZDOHS Property Control Form. All grant funded equipment that was procured for use by a different division within the city, will be tagged with disposal notification labels.
- b. Grant Asset Utilization – Grant funded assets that are not being utilized for their intended purpose will be entered into the asset manager data base, reflecting their new use and location. Notification will be made to AZDOHS on the AZDOHS Property Control Form.

(Items a. and b. have been added to our resource management procedures manual.)

APPENDIX

<u>Corrective Action</u>	<u>Implementation Status</u>
<b>CAP#1: Improve Grant Funded Asset Management</b>	
<p><b>Recommendation #1-1:</b> Fire EM should develop and follow a schedule for conducting physical inventories of grant funded assets at least once every two years. As part of each scheduled inventory:</p> <ol style="list-style-type: none"> <li>Asset records should be reconciled to physical inventory.</li> <li>Discrepancies and resulting adjustments should be reviewed by senior management, and any irregularities or other anomalies should be addressed and documented.</li> <li>All documentation should be retained in accordance with records retention guidelines.</li> </ol> <p><b>Management Response:</b> <i>Physical inventory audits for all capital assets will be completed every 2 years. The first inventory will be completed by Dec. 2012. Any discrepancies between the physical inventory and the asset records will be reviewed and addressed by management. Fire EM will follow federal and city guidelines for record retention and will add those guidelines to EM SOP's.</i></p>	<p><b>Implemented but Needs Improvement</b></p> <p>A physical inventory was completed in March 2013; however, the following issues should be addressed:</p> <ul style="list-style-type: none"> <li>Lack of segregation of duties – the inventory was performed by the same individual who manages the warehouse and maintains the records.</li> <li>Non-compliance with the Arizona Department of Homeland Security (AZ DOHS) Equipment Disposition process.</li> <li>Older assets that were not in the database were not included in the inventory.</li> </ul>
<p><b>Recommendation #1-2:</b> All grant funded capital assets should be accurately recorded in the EEMS Asset Tracker database. Missing data, such as serial numbers, locations (if applicable), acquisition dates, etc., should be researched and added to the database.</p> <p><b>Management Response:</b> <i>All grant funded capital assets will be added to the EEMS asset tracker database. This will be completed by Dec. 2012. Missing data will be researched and added to the data base.</i></p>	<p><b>Partially Implemented</b></p> <p>As of this review:</p> <ul style="list-style-type: none"> <li>Only 39 of the 149 capital assets in question have been added to the database.</li> <li>Only 120 of the 244 capital asset records in question have been updated to include missing data.</li> </ul>
<p><b>Recommendation #1-3:</b> Fire EM should develop a procedure to ensure accurate tracking of grant funded assets that have the potential to be disposed of through methods outside of the Fire Department (i.e. computers that may be cycle-replaced by ITD), to ensure that disposal details are captured in accordance with federal and state grant guidelines.</p> <p><b>Management Response:</b> <i>EM SOP's will be written to specifically document the Homeland Security Grant asset disposal process in accordance with Federal and City requirements. Emergency Management will work with Fire ITD and Resource Management to integrate our databases to share information between different departments.</i></p>	<p><b>Not Implemented</b></p> <p>No evidence was found that a Grant Asset Disposal process has been developed.</p>
<p><b>Recommendation #1-4:</b> Fire EM should develop a procedure that identifies grant funded assets that are not being utilized for their intended purpose.</p> <p><b>Management Response:</b> <i>MFD EM SOP's will be drafted which documents the Homeland Security Grant asset utilization process. Assets not being utilized will be evaluated and disposed of, as needed, following federal and city guidelines.</i></p>	<p><b>Not Implemented</b></p> <p>No evidence was found that a Grant Asset Utilization process has been developed.</p>

**APPENDIX**

<u>Corrective Action</u>	<u>Implementation Status</u>
<p><b>Recommendation #1-5:</b> Standard Operating Procedure (SOPs) should be developed for all EM grant-related activities (including those at the WMD warehouse), to ensure efficiency and continuity of operations as well as compliance with grant requirements.</p> <p><b>Management Response:</b> <i>MFD EM SOP's will be drafted to clearly identify roles, responsibilities and process used for grant management and the WMD warehouse. This will be completed by Dec. 2012.</i></p>	<p><b>Implemented</b></p> <p>Process documents have been created that capture grant related activities.</p>
<b>CAP#2: Improve Departmental Procedures to Strengthen Management Oversight</b>	
<p><b>Recommendation #2-1:</b> Fire EM and Management Services staff members should continue conducting monthly grant budget reviews. Fire EM should also consider developing a checklist containing essential activities and associated due dates, or other management oversight tools, to ensure compliance with grant requirements.</p> <p><b>Management Response:</b> <i>MFD EM will conduct Quarterly budget review meetings. MFD EM will also conduct quarterly meetings with WMD Manager to review asset tracking database and equipment entry. This will begin immediately.</i></p>	<p><b>Implemented</b></p> <p>Grant budget meetings are conducted quarterly and have been effective in providing timely submissions to AZ DOHS.</p>
<p><b>Recommendation #2-2:</b> The activities necessary to complete the grant closure process should be documented in a Standard Operating Procedure (SOP) to clearly disseminate expectations, minimize disruptions of essential operations during employee absences and ensure compliance with grant requirements.</p> <p><b>Management Response:</b> <i>MFD Management Services Division has drafted SOP's that clearly disseminates expectations and lines out essential responsibilities. This will assist in the continuation of work flow regardless of personnel. Management Services is also cross training an additional Financial Specialist to ensure continuity of essential operations. The SOP's will be implemented in Sept. 2012.</i></p>	<p><b>Implemented</b></p> <p>The Grant Close Out process has been documented and contains a complete list of all activities and required documents to be submitted to the Arizona Department of Homeland Security. A Program Assistant has been cross trained on AZ DOHS grant activities.</p>
<p><b>Recommendation #2-3:</b> The grant procurement process should be updated to include controls designed to prevent and/or detect purchases that circumvent established procedures.</p> <p><b>Management Response:</b> <i>MFD EM has drafted and is now following a Homeland Security Grant procurement process flowchart. This document will be added to our EM SOP's and will be reviewed for compliance at our quarterly grant budget review meetings.</i></p>	<p><b>Implemented</b></p> <p>The grant procurement process flowchart has been updated.</p>



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PO Box 1466  
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Date: November 4, 2013

To: Audit, Finance & Enterprise Committee

cc: Kari Kent, Deputy City Manager  
Beth Huning, City Engineer  
Kim Fallbeck, Real Estate Services Administrator

From: Jennifer Ruttman, City Auditor

Subject: Audit Report – Real Estate Leases

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed an audit of the City's real estate leases. The final report is attached. Please feel free to contact me you have any questions.



## AUDIT REPORT

CITY AUDITOR

<b>Report Date:</b>	<b>August 28, 2013</b>
<b>Department:</b>	<b>Engineering / Real Estate Division</b>
<b>Subject:</b>	<b>Real Estate Leases</b>
<b>Lead Auditor:</b>	<b>Bill D'Elia</b>

### OBJECTIVE

This audit was conducted to determine whether leases are awarded and administered in compliance with City policies and lease terms.

### SCOPE & METHODOLOGY

To accomplish our objective, we:

- Reviewed all active leases of City property as of April 2013, and other relevant documents on file in the Real Estate Division.
- Reviewed and analyzed documents and data maintained by the Accounting Division.
- Interviewed City staff members.
- Performed other tests and procedures as necessary to meet the audit objective.

### BACKGROUND

The Real Estate Services Division of the Engineering Department is responsible for managing most leases of commercial and industrial property owned by the City. Exceptions include airport properties, downtown parking lots, and a few others, some of which are managed by the Economic Development Department. At the time of this audit, the Real Estate Division was responsible for managing approximately 76 property leases, including 36 leases for sites used by communications companies for wireless communications towers or similar equipment. Communications leases are carried at market rates and generate revenues totaling approximately \$611K per year. The remaining leases involve properties leased to nonprofits and other agencies/entities with which the City has negotiated terms. These leases produce revenues totaling approximately \$236K per year.

### CONCLUSION

In our opinion, the leases managed by the Real Estate Services Division have been awarded and administered in compliance with City policies and lease terms. We found that the Real Estate staff members responsible for managing leases are experienced, proficient, and knowledgeable about all aspects of the leasing process. In addition, comprehensive policies and procedures are in place to help ensure the process will continue to operate effectively in the future. Therefore, although we are recommending a few minor process improvements and policy changes, no formal corrective action plans are needed. A summary of our observations and recommendations is included below.

## **SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS**

### **Observation #1**

Departmental policy requires Real Estate Services staff to inspect each leased property at least once per year to review its physical condition. We noted that inspections of some leased properties were not performed or were not documented. However, in most cases, reasonable alternative measures were taken by staff to ensure the properties were being adequately maintained.

### **Recommendations:**

- 1-1. We recommend that management consider revising the departmental policy regarding inspections of leased property, to allow for more flexibility and judgment to be used in determining the required frequency of inspections for each leased property.
- 1-2. We recommend that when an inspection is performed, the date, the inspector's name, and the results should be documented in the lease file.

### **Observation #2**

We found that some Management Policy requirements applicable to leases are outdated and no longer reflect stakeholders' expectations. Examples of this include:

- Management Policy 208 – Lease, Exchange, Sale or Trade of Land and Land Rights, states that "The negotiated sale or lease of land or land rights must have the prior written consent of the City Manager." We found that departments have not always complied with this requirement.
- Management Policy 119 – Records Management Policy for Intergovernmental Agreements, Development Agreements and Real Property Leases, states that "Real Estate Services will maintain a secure, electronic inventory database of the City's intergovernmental agreements, development agreements and real property leases." We found that real property leases have not been stored in this manner.

Based on a review of actual stakeholders' expectations, our recommendation is focused on policy revision, rather than on compliance.


### **Recommendations:**


- 2-1. We recommend that the City Manager revise Management Policy 208 (including its appendix) to establish completely new guidelines and procedures for leasing real property.
- 2-2. We recommend that the City Manager revise Management Policy 119 to exclude real property leases from its requirements.



DATE: September 9, 2013

To: Jennifer Ruttman, City Auditor  
Bill D'Elia, Senior Internal Auditor

THROUGH: Karolyn Kent, Deputy City Manager 

FROM: Elizabeth Huning, City Engineer 

SUBJECT: Engineering Department Response to the Audit Report dated August 28<sup>th</sup>, 2013 on Real Estate Leases.

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This report is in response to the Real Estate Leases Audit Report forwarded to the Engineering Department/Real Estate Services by the City Auditors Office. This group strives to ensure that the Real Property Leases are executed and administered in compliance with City policies and procedures. We appreciate the assistance and feedback from the City Auditor's Office and welcome any recommendations for improvement to our procedures. The following summarizes this audit and our response.

Observation #1: Departmental policy requires staff to inspect each property at least once per year to review and document the physical condition.

Response: The Engineering Department/Real Estate Services staff will revise the departmental policy regarding inspections of properties. The policy will focus on allowing more flexibility and judgment when properties require inspections. The policy will include a tracking log to document the date in which the inspection occurred, inspectors name and the results of the inspection. The tracking log will be maintained and kept in the lease file(s).

Observation #2: Management Policies applicable to leases are outdated and no longer reflect stakeholder's expectations.

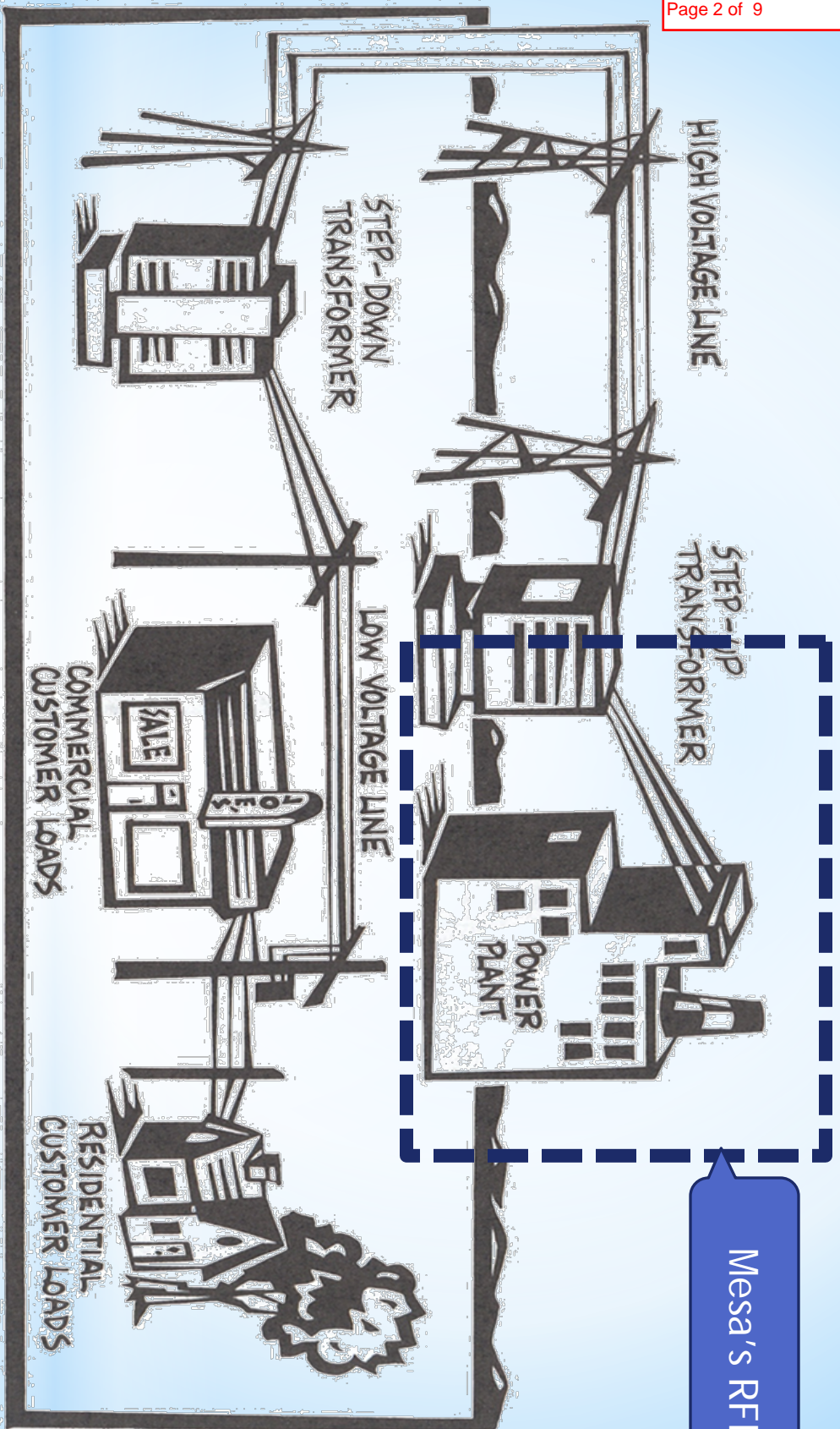
Response: The Engineering Department/Real Estate Services staff has formed a team to coordinate efforts with the City Manager's Office so that a review and coordination of revisions is completed on both Management Policy 208 and Management Policy 119. It is anticipated that suggested revisions will be submitted to the City Manager's Office within a 60 day period.





# City of Mesa Energy Resources

2013 Electric Power Request for Proposals  
and Resulting Contracts



Mesa's RFP

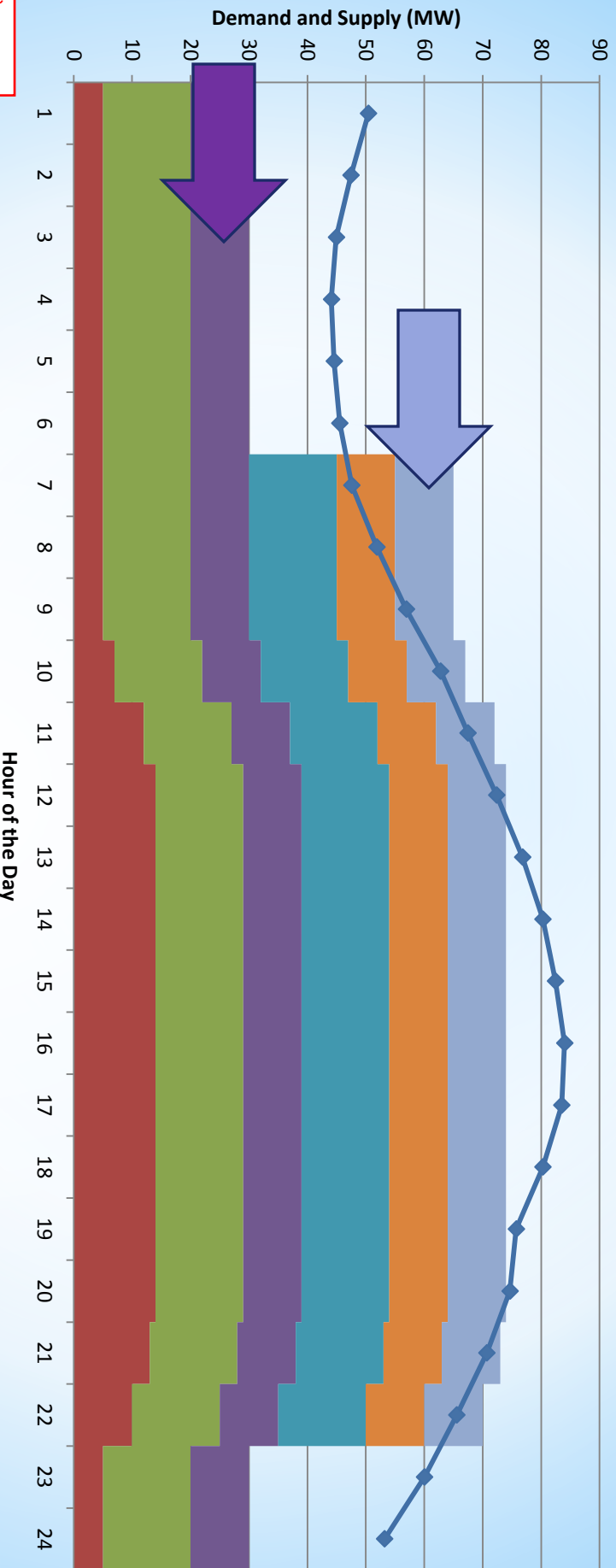
# \* Electric Utility System

2

- \* Renewable Hydropower! - 20%
  - \* Parker Dam (Lake Havasu, Colorado River)
  - \* Davis Dam (Lake Mohave, Colorado River)
  - \* Colorado River Storage Project (mostly Glen Canyon Dam, Lake Powell, Colorado River)
- \* Long Term Contractual Market Resources - 76%
- \* Short Term "Over the Counter" (OTC) Market Purchases - 4%

## \* Mesa's Current Supply Portfolio

# Peak Day Demand and Supply (July or August, 84 MW)

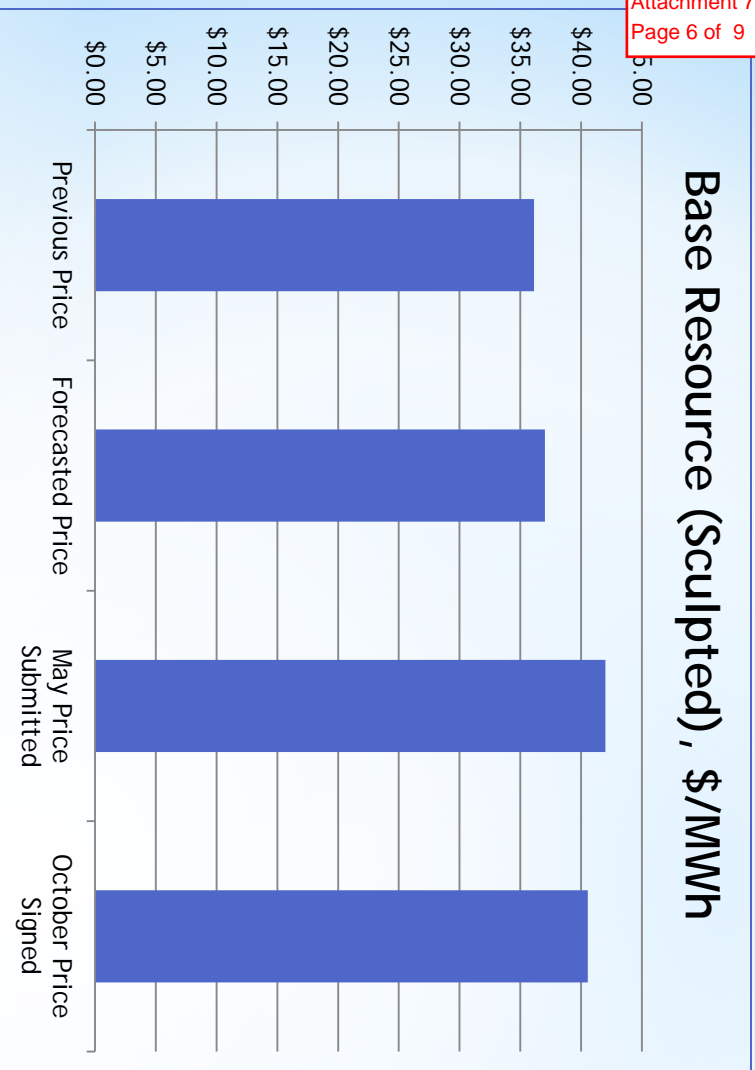


- CRSP & Parker Davis Hydro Contracts (Expire in 2024 & 2028)
- Formerly SENA 1A (0-11 MW, Replaced in this RFP)
- Constellation Peak (10 MW, Expires 8/2015)
- System Demand (MW)
- Constellation Base (15 MW, Expires 3/2017)
- SENA 1B (15 MW, Expires 9/2015)
- Formerly SENA 2 (10 MW Dispatchable, Replaced in this RFP)

\*  
**What does this supply look like?**



- \* Replacement of:
  - \* Base Supply
    - \* Formerly with Shell for 10 MW year-round
    - \* New supply is 0-11 MW
      - \* Optimized to avoid excessive purchases during off peak months while still limiting market exposure during peak times
  - \* “Dispatchable” Peak Supply
    - \* Formerly with Shell for 10 MW during peak times in the summer
- \* May Submitted Proposals were evaluated
- \* Council Approval obtained in early October
- \* Negotiations and final pricing requested mid-October



- Overall increase of \$165k/year
- Unit prices are higher than current contract but MW “monthly sculpting” results in annual net savings of ~ \$220k vs. flat schedule<sup>1</sup>
- Final price results in 5 year savings of \$423K vs. RFP price

## \*Results

### Sculpted Resource Awarded to Shell Energy for 5 years

<sup>1</sup> Based on current natural gas market forward pricing, firm contract savings of \$1.2 million offset by increased off-peak purchases

	Fixed Capacity Payment (\$/Month)	Energy Cost (\$/MWh)	Comments
Prior Contract	\$87,500/Month	\$62.50/MWh (Fixed price)	Seldom dispatched due to high \$/MWh energy/dispatch price vs. market price
New Contract	\$103,109/Month	\$25.00/MWh - \$42.00/MWh <sup>1</sup>	Forecasted to displace short-term market purchases. Annual savings of \$150K <sup>1</sup>

<sup>1</sup> Based on current natural gas market forward pricing

- \* Postponing execution of the transactions to October saved substantial amounts of money for rate payers
- \* Sculpting of the new resource allows Mesa to reduce disadvantageous purchases during off-peak months, saving money for rate payers while still limiting peak market exposure
- \* Mesa's new dispatchable resource is much more favorable for use and helps limit peak market exposure

## \* Summary

Questions  
Frågnntas  
何是题  
Frågen  
Frågen  
Вопросы  
Otázky  
Cwestiynau  
Fråstiy nau  
Frågor  
السؤال  
Küsimused  
คำถามที่

\*  
Questions?