



AUDIT, FINANCE & ENTERPRISE COMMITTEE

October 1, 2015

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 October 1, 2015, at 10:07 a.m.

COMMITTEE PRESENT

Christopher Glover, Chairman
Alex Finter
Kevin Thompson

COMMITTEE ABSENT

Christopher Brady, Ex Officio

STAFF PRESENT

Alfred Smith
Alex Deshuk
Dee Ann Mickelsen

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation, discuss and provide a recommendation on the proposed fees and charges for the Police Department.

Assistant Chief John Meza and Commander Dan Butler displayed a PowerPoint presentation relating to the vehicle usage fees for the Off-Duty Hiring Program. **(See Attachment 1)** Commander Butler explained that the Off-Duty Hiring Program is in place for vendors, non-profit organizations and construction companies to hire officers to work off-duty jobs. He added that the Police Department (PD) facilitates the program and charges a fee for use of patrol vehicles when an officer is needed for traffic control.

Mr. Butler explained that the PD has been charging a vehicle usage fee since 2008, but the fee was not brought before Council. He reported that staff's recommendation is for continuation of the fee, which is currently \$5 per hour with a three-hour minimum. He noted that vehicle usage fees are paid by the vendor/company to the PD's General Fund, whereas the off-duty hours are paid directly to the officers. He reported that in 2014, there were 6,628 vehicle usage hours logged and that the proposed fiscal impact for FY 2015/2016 is \$33,142.

In response to a question from Committeemember Finter, Mr. Butler explained that the vehicles used are those at the end of their useful life and added that staff was not opposed to raising the fee to ensure that costs are recovered.

Chairman Glover requested that staff look into the cost of the vehicle usage and report back at the next meeting.

2-b. Hear a presentation and discuss the following audits:

1. Worker's Compensation

City Auditor Jennifer Ruttman reported that the Worker's Compensation Audit (**See Attachment 2**) was primarily to look at claims management from an administrative standpoint to determine if payments were properly processed. She highlighted the findings of the audit as follows:

- Policies and procedures were not in writing, which is imperative to ensure compliance with various state regulations and continuity during times of employee turnover.
- Money was being received in the office without the proper training. Staff are now trained on the proper procedures for handling such payments.
- There was potential risk for claims to be deleted from the system without an audit trail. Staff implemented a process of governance that requires director approval before deletions can be made.
- A single audit review was conducted last year which found that payments were made without adequate management review. It was recommended that staff test a larger number of transactions in order to provide more reliable results.

2. Riverview Site Post-Construction Financial Review

Ms. Ruttman pointed out that this item was not an audit, but rather a compilation of data reviewing the total costs incurred, and funding sources used to design and construct the Spring Training Facilities, Riverview Park and related capital improvements at the Riverview Site. (**See Attachment 3**)

Ms. Ruttman explained that breaking down the costs for the Riverview site was complicated due to the fact that the site consists of a stadium, a park, common use areas and fields. She explained that the project was combined into one construction manager-at-risk (CMAR) contract; that the project encompassed more than just the agreement with the Cubs to build the Spring Training Facilities; and that, from a financial standpoint, it was difficult to separate the various factors due to the multiple stages and additional projects added on after the agreement with the Cubs and the initial plans were completed.

Ms. Ruttman provided a summary of the total cost breakdown by major program and funding source. (See pages 4 and 5 of Attachment 3) She began by reviewing the costs of major programs, which is the accounting structure used by the City and often encompasses many smaller projects within each category. She explained that the line item for the Cubs Training Facility Project Support was created largely to account for the City staff costs, which were to be specifically excluded from the dollar amount agreed upon in the Cubs agreement.

Ms. Ruttman, in addition, reported on the types of funding sources for the site. She stated that the major source of funding for the project was from bonds. She explained that, although the largest source was from spring training bonds, utility and street bonds covered the infrastructure necessary to complete the project and parks bonds covered most of the park expenses.

Ms. Ruttman further reported on a geographic display of costs, which divides the site into sections and is labeled for descriptive purposes. She clarified that the area labeled 'Paseo' is

not another project, but rather the geographical area being discussed. She noted that the total cost of \$113 million on the last page differs from the \$116 million discussed previously due to the exclusion of staff costs, which were unable to be dispersed geographically. She added that the geographical costs displayed were determined by the location of fixed assets on record.

In response to a question from Committeemember Finter, Ms. Ruttman explained that a CMAR audit is a specialty that would require the expertise of an independent auditor.

City Engineer Beth Huning remarked that Mesa has just completed the CMAR contracts and can hire an auditor if that is the direction of the Council.

In response to a question from Committeemember Finter, Ms. Ruttman replied that auditing the project was difficult due to the fact that people used different ways to track costs. She assured the committee that staff did stay within the committed boundaries for the \$99 million allotted for the original scope of work, however, several things were added later, such as the park and multi-use areas. She advised that an external auditor would be more successful at breaking apart each individual asset more clearly.

Committeemember Finter commented that his goal was not to generate more work but rather to ensure that Mesa met its fiduciary responsibility of meeting the \$99 million, which it appears to have done.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 10:32 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 1st day of October, 2015. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

Hm
(attachments -3)

Fees and Charges Review Mesa Police Department

Off-Duty Hiring Program
October 1, 2015

Assistant Chief John Meza
Commander Dan Butler





Background

- Through the Off-Duty Hiring Program, Police Department members contract work with an independent company, person or not for profit entity.
- Members are considered to be an employee for a temporary employer.



Discussion

- During the first quarter of 2015, the Police Department discovered the vehicle usage fee had not been approved by City Council.
- If the work requires traffic control, a patrol vehicle is utilized.



Recommendation

Continuation of the following fee:

- Off-Duty Program Use of Vehicle Fee: \$5.00 per hour (3 hour minimum)

Notation of Off-Duty Services:

- Terms are based on current Temporary Employment Agreement. Payment is made directly to the officer.





Fiscal Impact

- During calendar year 2014, 6,628.4 vehicle usage hours were logged. Based on these hours, the Fiscal Year 2015/2016 impact will be:
 - Use of Vehicle Fee: \$33,142





Questions?





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

Date: October 1, 2015

To: Audit, Finance and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit of Workers' Compensation Program

cc: Mayor and Council
John Pombier, Assistant City Manager
Gary Manning, Human Resources Director
Nitra Hawkins, Safety Services Administrator

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed an audit of the City's Workers' Compensation Program. The report is attached. Please feel free to contact me with any questions or concerns.

AUDIT REPORT

CITY AUDITOR

Report Date:	September 3, 2015
Department:	Human Resources, Safety Services Division
Subject:	Workers' Compensation Claims Management
Lead Auditor:	Kate Witek

OBJECTIVE

This audit was conducted to determine whether internal controls related to Workers' Compensation claims management are adequate to provide reasonable assurance that:

- The program is operating in accordance with applicable policies, laws and best practices.
- Claim payments are accurate and authorized.
- The risk of loss due to errors or fraud is minimized and/or effectively mitigated.

SCOPE & METHODOLOGY

To accomplish our objective, we:

- Reviewed and tested compliance with applicable Arizona Revised Statutes, Industrial Commission regulations, Arizona Administrative Code, records retention requirements, Management Policy 346-*Industrial Insurance Program*, and other policies & procedures.
- Interviewed responsible staff and management in the Human Resources, City Attorney, and Financial Services departments.
- Reviewed and tested Workers' Compensation medical and lost wages claims managed between 7/1/2013 and 12/31/2014.
- Reviewed the claims payment oversight process established in response to the FY 2014 Single Audit finding #2014-004, "Internal Controls over Workers Compensation Claims".

BACKGROUND

Workers' Compensation is a "no fault" insurance program which provides constitutionally mandated medical benefits and wage replacement to employees injured in the course of their employment. All AZ Workers' Compensation insurance carriers, including self-insured entities, are monitored by the Industrial Commission of Arizona (ICA). The City of Mesa has been self-insured for Workers' Compensation since 1982, and the program is administered by staff in the Safety Services Division of the Human Resources Department. Additional oversight is provided by a Self-Insurance Trust Fund Board appointed by the City Council.

Process Overview

According to City policy, an employee injured on the job must visit a Banner Occupational Health Clinic (Banner) for an initial medical examination as soon as the injury occurs, or when the employee becomes aware of the injury. Banner sends the employee's injury information to the City's Workers' Compensation office and to the ICA. After reviewing the information, the ICA notifies both the employee and the Workers' Compensation office that a claim has been officially filed. The Workers' Compensation office, as the insurance carrier, then has 21 days to approve or deny the claim. According to state law, Workers' Compensation claims must be filed within 1 year of the employee becoming aware of the injury.

Types of Claims

There are 2 types of Workers' Compensation claims:

- 1) Medical Only - All medical expenses associated with the injury are paid and the employee does not require time off from work.
- 2) Time Loss - All medical expenses associated with the injury are paid and a doctor concludes an employee is unable to work due to the injury.

If a doctor determines an employee is unable to work, and the employee is off work more than 7 days, the employee is entitled to compensation for lost wages. This compensation is paid at $66\frac{2}{3}$ percent of an employee's Average Monthly Wage (AMW), up to a statutory maximum (\$4,337.82 for 2015). If an employee meets eligibility requirements, the City's Industrial Insurance Program (IIP) will pay a portion of the lost wages that are not paid by Workers' Compensation.

Permanent (Perpetual) Awards

If a doctor determines an employee's medical condition is stationary and the employee has sustained a permanent impairment, the doctor will assess the percentage of impairment according to standards set by the American Medical Association. The employee will receive a permanent compensation award based on the determination. There are two types of permanent compensation awards. A *scheduled* award is conferred pursuant to state statute for a particular injury, and the rate is calculated as a specified percentage of the employee's AMW. An *unscheduled* award is determined by the ICA, and the rate is calculated at 55% of the difference between the employee's AMW and the reduction or loss of earning capacity (LEC) resulting from the injury. A total loss of earning award is calculated at $66\frac{2}{3}$ percent of the employee's AMW.

Fiscal Impact

The table below shows the actual program costs, along with the actuarially calculated unpaid claim balance* for the past 4 fiscal years.

	FY 2011	FY 2012	FY 2013	FY 2014
Administration	923,772	895,090	926,435	930,000
Claims Paid	3,127,828	3,568,076	3,686,440	3,086,000
Premiums to Insurance Carrier	235,825	266,104	300,290	314,582
Total Program Costs	4,289,436	4,731,282	4,915,178	4,332,596
Unpaid claim balance*	\$11,469,618	\$18,718,196	\$21,706,500	\$22,807,000

* The City of Mesa is required by statute to assure the unpaid claim balance with a security bond and monitor long-term actuarial claim liabilities for adequacy.

CONCLUSION

In our opinion, internal controls related to Workers' Compensation claims management are adequate to provide reasonable assurance that the program is operating in accordance with applicable policies, laws, and regulations. However, although we did not find that losses had occurred, improved controls are needed to ensure that claim payments are accurate and authorized; and to minimize or effectively mitigate the risk of loss due to errors or fraud.

Our observations and recommendations are summarized below. For additional details and responses from management, please see the attached Corrective Action Plans (CAPs).

[Note: Additional findings and recommendations involving aspects of the Workers' Compensation program that are closely related to payroll processing may be forthcoming in a separate report on our citywide payroll audit (in process, as of this writing).]

OBSERVATIONS AND RECOMMENDATIONS

1. Policies and procedures for managing claims and payments are not in writing. To ensure consistent handling of claims, as well as continuity of operations upon staff turnover, we are recommending that detailed written policies and procedures for all essential processes be developed and formally adopted by management. These documents should be reviewed periodically and updated as necessary to mitigate the risks associated with this complex, highly regulated activity.
2. Checks received in the mail were not being processed in accordance with City policies. We are recommending stronger internal controls to ensure checks are safeguarded from loss, deposited in a timely manner, and properly recorded in the City's financial system. These include segregation of duties, immediate restrictive endorsement of checks, improved physical security/chain of custody processes, and full compliance with the City's cash handling policies.
3. Claim records have been deleted from the RiskMaster claims management database. We are recommending improvements to application security controls, in order to help ensure the

accuracy and completeness of claims data, preserve an effective audit trail, and reduce the risk of fraudulent activity.

4. In our opinion, the claims payment review process implemented by management in response to a 2014 Single Audit finding (#2014-004) should be strengthened to increase its effectiveness as an internal control. We are recommending that the number of transactions tested be increased as necessary to provide a more statistically reliable result.

CAP#1: Policies and procedures are not in writing.

Observation: There are no formal written policies and procedures for the Workers' Compensation program.

Criteria: An effective system of internal controls requires that all critical and complex processes be clearly documented in written policies and procedures, to formally establish management's expectations, to ensure compliance with complex regulations and policies, to ensure consistent outcomes, and to help mitigate many common operational risks.

Comments: Claims adjusters work with considerable autonomy and rely primarily on professional judgment when making claims management decisions. With no formal guidelines established by management, similar claims may be treated differently depending on the individual adjuster.

Without written standard operating procedures, training of employees may be inconsistent, and there is an increased risk of disruption of operations upon staff turnover.

Recommendation: 1-1. Management objectives should be clearly communicated in written program policies, and all essential processes in the Workers' Compensation program should be documented in detailed written procedures formally adopted by management. These documents should be regularly reviewed and updated to ensure they remain current.

Management Response: 1-1. Agree.

Implementation Plan:

Create and document all essential processes for the City of Mesa's workers' compensation program.

One hour brainstorming sessions will be held each week with the Workers' Compensation Representatives and Administrative Staff to:
1) identify processes and/or protocols specific to how the City's Workers' Compensation program is administered; and 2) create written procedures.

Sessions will begin the week of September 14, 2015.

Individual or Position Responsible:

Safety Administrator, Management Assistant and Workers' Compensation Staff.

Estimated Completion Date: 8/31/2016

CAP#2: Cash handling processes need improvement.

Observation: Checks received through the mail by the Workers' Compensation office have not been handled in accordance with the City's cash handling policy and have not been adequately safeguarded from loss.

Criteria: Management Policy 210, *Cash Handling* requires, in part, that:

- Employees know where cash (and cash equivalents) are at all times.
- Employees know what has occurred from the beginning of a cash handling process to the end of the process.
- Individual accountability (i.e. chain of custody) be maintained throughout all cash handling operations.
- Checks shall be restrictively endorsed upon receipt and stored in a secure location.
- Administrators not directly involved with the cash receipt process should periodically evaluate overall internal controls to ensure that reasonable controls exist to safeguard cash and that employees understand and follow them.

Comments: We found that checks received in the mail were being given to a claims adjuster to document in the corresponding case file, and then sent via inner-office to "Customer Service" (the Revenue Collections Business Office). In addition, no follow up procedures were in place to ensure these checks were received by Customer Service or properly recorded in the accounting system.

In many instances, such as with Pharmacy refunds, these checks are unanticipated, which further increases their vulnerability.

Recommendation: Management should ensure that all checks received are handled in compliance with Management Policy 210, including but not limited to the following:

- 2-1. Checks received in the mail should be immediately restrictively endorsed.
- 2-2. Checks should never be transmitted via interoffice mail.

- 2-3. Checks should be logged upon receipt, *preferably* by an employee in a position unrelated to the Workers' Compensation payment process. *(Note: If current resources do not allow these duties to be segregated, the overall system of controls will need to effectively compensate for the associated risk.)*
- 2-4. All funds received in connection with a claim should be documented in the associated claim file, along with evidence (such as the revenue receipt from Customer Service) showing that the funds were properly recorded in the Workers' Compensation Fund in the City's financial system.

**Management
Response:**

2-1. Agree.

Implementation Plan:

Established a chain of custody process that includes the restrictive endorsement of checks and cash items immediately upon receipt.

See the Safety Service Cash Handling process document for specific details on entire process.

Individual or Position Responsible:

Senior Program Assistants

Estimated Completion Date: 8/11/2015

2-2. Agree.

Implementation Plan:

Established a chain of custody process that includes the delivery of the checks directly to Customer Service for deposit.

Safety Services purchased a lock box that has been secured in the Worker's Compensation vault. If for some reason staff is unable to walk the check(s) to Customer Service for deposit immediately upon receipt, the checks will be secured in the lock box until the deposit can be made.

See the Safety Service Cash Handling process document for specific details on entire process.

Individual or Position Responsible:

Senior Program Assistants

Estimated Completion Date: 8/5/2015 Immediate

2-3. Agree.

Implementation Plan:

Established a chain of custody process that includes checks (cash items) being logged immediately upon receipt in Safety Services.

See the Safety Service Cash Handling process document for specific details on entire process.

Individual or Position Responsible:

Senior Program Assistants

Estimated Completion Date: 10/5/2015

2-4. Agree.

Implementation Plan:

Established a chain of custody process that includes scanning and attaching the revenue receipt from Customer Service to the applicable workers' compensation claim.

See the Safety Service Cash Handling process document for specific details on entire process.

Individual or Position Responsible:

Senior Program Assistants

Estimated Completion Date: 8/5/2015 Immediate

CAP#3 – System security settings should prevent deletion of claim records.

Observation: RiskMaster system security settings have been configured to allow 2 Safety Services employees the ability to delete claim records.

Criteria: Internal controls should be designed to help ensure the accuracy and completeness of data during processing. Allowing an employee to delete a claim prevents an effective audit trail and is therefore a significant deficiency in internal control.

Comments: Workers' Compensation claims (managed by Safety Services) and Property & Public Liability claims (managed by the City Attorney's office) share a single database system (RiskMaster). However, 2 employees in Safety Services have administrative access and are therefore able to configure security settings for all users, including themselves. These are the only employees (outside of ITD) with the ability to delete claims and perform other system administrator-level tasks.

Although only a small number of claims (13 of 1804) have actually been deleted, the ability to delete a claim is a significant deficiency in internal control, because it provides a means to effectively and permanently conceal fraudulent activity.

Safety Services staff were able to provide supporting documentation for 5 of the 13 deleted claims, but had no explanation for the remaining 8 claims. A manual "edit log" is supposed to be used to track certain actions, including deletions, but the RiskMaster system activity/audit log has not been turned on. Therefore, we were unable to determine who deleted the rest of the claims; and we were unable to track changes which may have been made to any user's access permissions during the audit period.

Recommendation: 3-1. A thorough review of all RiskMaster system user roles and permissions should be performed, and the system should be reconfigured to ensure adequate controls are in place.

3-2. If the System Administrator role is to remain in the operating department(s), protocols should be established

to ensure effective internal controls are maintained and compliance is monitored. No end users of the RiskMaster system should have the ability to delete a claim record.

3-3. The RiskMaster system's activity/audit log functionality should be activated and configured to provide an adequate audit trail and to allow for monitoring of compliance with established security protocols.

**Management
Response:**

3-1. Agree.

Implementation Plan:

Review the RiskMaster user roles with all essential stakeholder groups.

Individual or Position Responsible:

Safety Administrator

Estimated Completion Date: 6/30/2016

3-2. Agree.

Implementation Plan:

The ability to delete RiskMaster claims and events was temporarily removed from system user roles and permissions for all employees outside of the IT Department on 08/05/2015.

Interim procedures have been implemented to include a workflow that requires the approval of the HR Department Director to approve the deletion of any claims and/or events with supporting justification documentation.

All RiskMaster claim and/or event deletion requests must go through the following steps in Safety Services:

1) Any requests for deletions will be routed via email directly to the Safety Administrator for review and authorization. 2) Once approved by the Safety Administrator, the deletion request will be submitted via email to the HR Director for review and final approval. 3) Once the deletion request is authorized by the HR Director, an email confirmation will be sent to the Safety Administrator authorizing the deletion. 4) The deletion of the claim or event will be completed by the Management Assistant. 5) The Management Assistant will send a deletion confirmation email to the Safety Administrator. 6) The deletion authorization request (email chain) will then be filed in File Net.

A more formal delete request and approval process will need to be created and finalized based on discussions with all stakeholders, to include the City Attorney's Office and the IT Department.

Individual or Position Responsible:

Safety Administrator

Estimated Completion Date: 6/30/2016

3-3. Agree.

Implementation Plan:

Meet with appropriate IT personnel and RiskMaster vendor to have the system wide history tracking function turned on.

Individual or Position Responsible:

Management Assistant

Estimated Completion Date: 12/31/2015

CAP#4: Management oversight of claim payments needs improvement.

Observations: In response to a finding in the City's FY2014 Single Audit, management implemented a process in which claim payments are reviewed and approved, on a sample basis, after the payments are processed. However, the number of payments being selected for review each month does not provide a statistically reliable result.

Criteria: A secure internal control environment includes appropriate separation of duties. For example, the individual authorizing a transaction should be different than the person preparing source documents and recording the transaction. Since Safety Services does not have the resources to completely segregate these duties, the review and approval process described above was implemented as a compensating control.

Comments: The City's external auditors cited a lack of internal control over Workers' Compensation claims as a finding in the City's FY2014 Single Audit, stating that there was "...a lack of proper review and approval," for claims. As a corrective action, management established a monthly process in which a sample of payments made during the prior month are reviewed and approved.

The Workers' Compensation program employs two claims adjusters who manage hundreds of cases at any given time. Among their many duties, adjusters retain service providers as needed (attorneys, medical reviewers, investigators, etc.), process claimant paperwork to and from the Industrial Commission, and process payment requests for service providers, claimant awards, and pharmacy charges. The department does not have additional resources available to enable the segregation of these duties.

According to our statistical analysis, the number of payments being tested by management provides only a 60% confidence level (the probability that a sample represents the true value of the population). As a general rule, for attribute testing, auditors prefer to use a sample size that provides a confidence level of 90% or above.

Recommendation: 4-1. Management should increase the number of transactions tested, to raise the confidence level of the post-payment review process to provide a more reliable and effective internal control. Using a test sample that provides a confidence level of 90% or above is recommended. *[Note: As an example, for the month of July 2014, this would have required that 15 payments be tested, rather than 4.]*

**Management
Response:**

4-1. Agree.

Implementation Plan:

Incorporate the use of a sample size calculator to identify the number of post- payment workers' compensation transactions that will be audited each month.

The sample size calculator will be provided by the City Auditor's Office.

Individual or Position Responsible:

Safety Administrator

Estimated Completion Date: 1/1/2016



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

Date: October 1, 2015
To: Audit, Finance and Enterprise Committee
From: Jennifer Ruttman, City Auditor
Subject: Riverview Site – Post-Construction Financial Review

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a review of the total costs incurred, and funding sources used, to design and construct the Spring Training Facilities, Riverview Park and related capital improvements at the Riverview Site. The report is attached. Please feel free to contact me with any questions or concerns.

CITY AUDITOR

Report Date: October 1, 2015
Subject: Riverview Site Post-Construction Financial Review
Lead Auditor: Tami Steadman

OBJECTIVE

This review was conducted to determine the City's total cost incurred, and funding sources used, to design and construct the Sloan Park Spring Training Facilities, Riverview Park, and related capital improvements, collectively referred to as the Riverview Site. Our objective was not to audit this information, but to compile and present it for informational purposes only.

SCOPE & METHODOLOGY

To achieve our objective, we:

- Interviewed City staff members from Engineering, OMB, Financial Services, and the City Attorney's office.
- Reviewed agreements between the City and Chicago Cubs Baseball Club, LLC (Cubs).
- Reviewed contracts and related documents for construction and design services.
- Reviewed publicly disseminated information pertaining to project financing and expenditures, including but not limited to: bond election materials provided to voters; Council Reports prepared by City staff; Minutes of City Council meetings and study sessions; and CAFR, Capital Improvement Program, and Budget reports.
- Reviewed project-related financial transactions and supporting documents from fiscal years 2011 through 2015.

The financial information presented in this report is a compilation of data as recorded in the City's financial system as of June 30, 2015. We do not express an opinion or provide any assurance on the information, because we have not performed the auditing procedures that would have been necessary to obtain sufficient evidence to express such an opinion or provide such assurance. Additionally, it should be noted that as of this writing the City has not yet formally closed its accounting records for the fiscal year ended June 30, 2015. Therefore, although unlikely, the possibility exists that additional material adjustments could be made to the accounts and funds underlying the financial information presented in this report.

BACKGROUND

In November 2010, Mesa voters approved Proposition 420 to allow "*the City's expenditure of public funds, grant of tax concessions or relief, incur debt and/or grant of City-owned land in excess of \$1.5 million to construct or aid in the construction of a City-owned stadium, training, practice facility and related improvements for Cactus League Spring Training.*" Approximately one year after receiving voter approval, the City entered into a Facilities Development Agreement with the Chicago Cubs, specifying each party's expectations and obligations related to the construction of "Spring Training Facilities, Public Parking, and other Improvements".

The agreement between the City and the Cubs specified that the City was to spend up to \$84 million on the construction of Spring Training Facilities (Stadium, Team Facilities, and City Fields, including certain on-site utility infrastructure, irrigation, street improvements, and on-site parking), plus up to \$15 million on additional public parking, off-site utility infrastructure, and off-site street improvements. The agreement also specified that the \$84M and \$15M amounts were not to include any other improvements to the Riverview Site; and it explicitly excluded the cost of any City personnel and overhead required to complete the project. However, while these exclusions defined the scope of City's agreement with the Cubs, they did not define the scope of the overall project.

Since the City was also planning improvements to Riverview Park, as well as other improvements that were outside the scope of the Cubs agreement, it was decided that the most economical approach would be to combine all of these efforts under a single Construction Manager @ Risk (CMAR) contract. In October 2011, a contract was awarded to Hunt Construction Group, Inc. to manage development of the entire Riverview Site, which included the Spring Training Facilities, related infrastructure, and Riverview Park. The total Guaranteed Maximum Price (GMP) for all work to be completed by Hunt under this contract was approximately \$99 million. Construction of the Spring Training Facilities was completed in time for the 2014 Spring Training Season, and the remainder of the contracted work referred to in this report was completed by the end of FY 2015.

FINANCIAL OVERVIEW

Total Costs

The costs presented in this report represent all identified costs incurred by the City to meet its obligations under both the Cubs agreement and the Hunt CMAR Contract. In addition, we have included costs associated with certain multi-purpose improvements that were intended to satisfy the Cubs agreement while also meeting other objectives. Examples of this include improvements to multi-use parking areas, sports fields and additional infrastructure. The total amount incurred to complete this work was approximately \$116.5 million.

Cost Breakdown

All costs were accounted for within the City's Capital Improvement Program (CIP), using four designated Major Programs. However, for additional clarification, we have also presented a breakdown of the costs as they relate to 6 designated areas within the Riverview Site. This information can be found in the attached Appendix.

Total Costs by Major Program	
C10554 - Chicago Cubs Spring Training Facility	96,179,391
C11002 - Riverview Park Improvements	13,305,084
CP0295 - Spring Training Multi-Use Facility/Parking Improvements	3,950,220
CP0187 - Cubs Training Facility Project Support	3,029,784
Total:	116,464,478

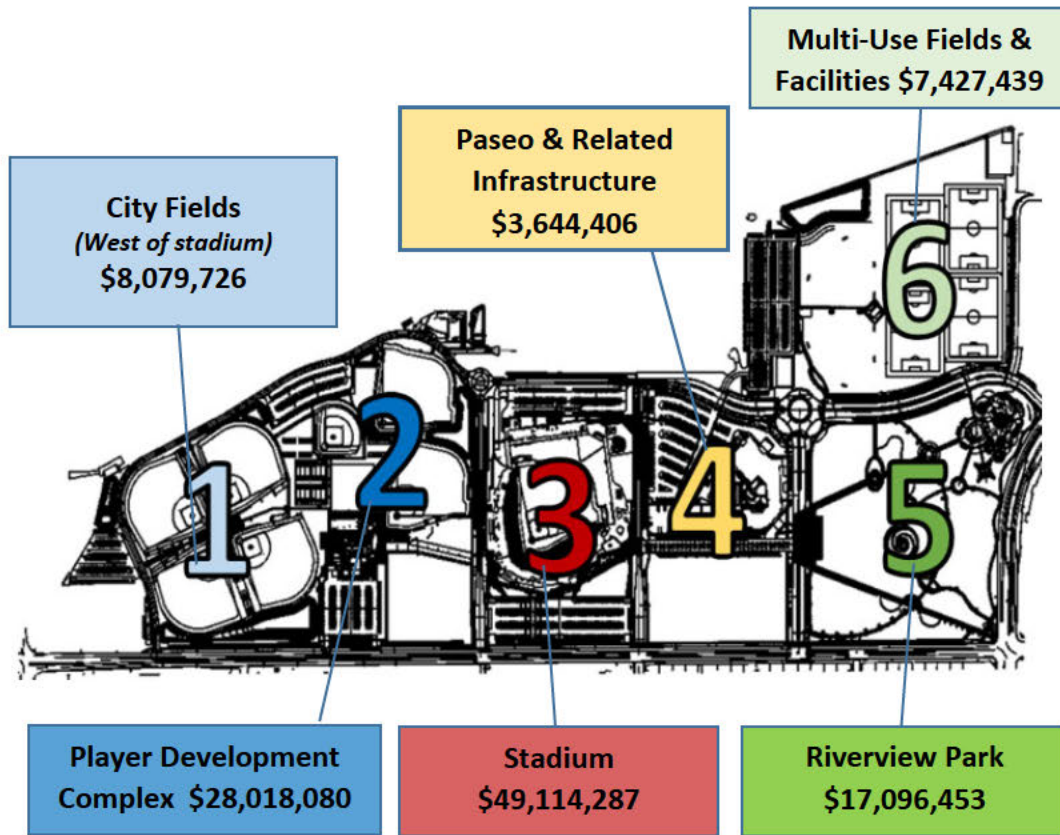
Funding Sources

The Spring Training Facilities and other Riverview Site improvements were funded largely by bond sales. These included Spring Training Bonds, Utility Bonds, Street Bonds, and Parks Bonds. Additional funding was provided by the Economic Investment Fund and the General Fund, as shown below.

Total Costs by Funding Source	
Spring Training Bonds	88,468,785
Utility Bonds (W, WW, Gas, Storm Sewer)	8,487,054
Street Bonds	2,241,769
Parks Bonds	9,146,991
Capital - Economic Investment Fund	6,162,852
Capital - General Fund	1,957,027
TOTAL	116,464,478

Please see the attached Appendix for a breakdown of costs by site area.

APPENDIX



Riverview Site – Total Cost of Facilities & Infrastructure (does not include \$3M in Project Support costs)
\$113,380,391

