

FINANCE COMMITTEE MINUTES

July 17, 2006

The Finance Committee of the City of Mesa met at the Mesa City Plaza, Suite 870, 20 East Main Street, on July 17, 2006 at 8:00 a.m.

COMMITTEE PRESENT

Claudia Walters, Chairman
Rex Griswold
Tom Rawles

COUNCIL PRESENT

None

STAFF PRESENT

Christopher Brady
Debbie Dollar

1. Discuss and provide direction on the role and responsibilities of a Council-appointed Auditor.

Chairman Walters stated that the purpose of today's meeting was to provide the Committee with an opportunity to engage in informal discussions regarding the role and responsibilities of a Council-appointed Auditor before any Committee recommendations are forwarded on to the Council.

Government Relations Coordinator Scott Butler provided the Committee with copies of the April 13 and June 29, 2005 Mesa 2025: Financing the Future Citizen Committee minutes which discussed City Auditor activities and referenced the votes taken by the Committee regarding the creation of an independent City Auditor position. (Copies of the minutes are available for review in the City Clerk's Office.)

(Chairman Walters declared a brief recess at 8:05 a.m. to provide the Committeemembers with an opportunity to review the minutes. The meeting resumed at 8:10 a.m.)

Committeemember Griswold, who served as a member of the Financing the Future Citizen Committee, reported that the Committee engaged in extensive discussions regarding whether it would be appropriate to take the existing City Auditor's Office, which reports to the City Manager, and move it, per a Charter amendment, so that the individual would be appointed by the Council and serve at their pleasure. He also recounted the Committee's discussions regarding the possibility of selling the City's electric or gas utilities and the necessity of bringing in experts to assist in the valuation of those entities.

City Manager Christopher Brady explained that in order to avoid any confusion between the current City Auditor's Office and a new Auditor, he has recommended that the City Auditor's Office be renamed and merged with the Quality and Organizational Development Office. He commented that from his perspective, it is important for him to have an internal audit staff available to handle efficiencies, reconciliations and resolve system problems.

Chairman Walters suggested that the Committee focus its discussions on the following three questions:

- **To whom does the City Auditor report?**
- **What would be the City Auditor's scope of duties?**
- **What kind of individual would fit into the role of City Auditor?**

Committeemember Rawles stated that it was his recollection of the October 6, 2005 Planning Session that the Council had agreed that a Council-appointed City Auditor would report to a Council Audit Committee, but would also have the ability to go before the Council if there was an issue that needed to be addressed. He commented that he had supported that direction because, in his opinion, it would be less complicated for the individual to report to a three-member sub-Committee as opposed to the full Council.

Deputy City Manager Debbie Dollar concurred with Committeemember Rawles' recollection of the discussions at the Council Planning Session.

In response to a question from Committeemember Rawles, Mr. Brady clarified that when performance activity auditing of a City department is implemented, it is also beneficial to obtain financial assistance. He explained that is the reason he is merging the Quality and Organizational Development Office with the internal auditing group. Mr. Brady further noted that there are specific government auditing standards (the Yellow Book) with which all auditors must comply in developing their Audit Plan. He stated that as the City Manager, he would work with the City Auditor to find some of the larger, "broader brush" areas with regard to operational efficiencies or even take a comprehensive look at, for instance, cash handling throughout the organization.

Committeemember Rawles questioned whether it is necessary to have a new Auditor in charge of various auditing functions that are already being accomplished by the existing City Auditor. He commented that it was his understanding that the Financing the Future Citizen Committee had recommended a model that was "more political," wherein the new Auditor would look into, for example, whether Mesa "should be in the business" of providing various services to its residents or if the City is receiving a value for its dollars in certain areas. He also expressed uncertainty whether "City Auditor" is the correct definition for the position. Committeemember Rawles added that although he is unable to determine exactly what the Committee had in mind, he suggested that it was more of an attempt to help the Council make policy decisions, but not to ensure that the processes that implement those policies are in order.

Chairman Walters disagreed with Committeemember Rawles' comments and stated that she viewed the Financing the Future Citizen Committee's recommendation as an attempt to ensure that the necessary steps are implemented in order for the Auditor to have the ability that the Councilmembers do not to "delve into City departments." She added that this person would, in essence, be "another set of eyes" that reports to the Council and whose input would not be "filtered" through the City Manager.

Committeemember Griswold concurred with Chairman Walters' assessment and said that was one of the key concepts established by the Financing the Future Citizen Committee during its discussions of this item.

Chairman Walters commented that during her tenure as a Councilmember, she does not remember ever receiving a copy of an audit.

In response to Chairman Walters' comments, Mr. Brady stated that he would provide the Finance Committee with copies of internal reviews to apprise them of the kind of audits that have been initiated. He also provided a brief overview of Mesa's internal audit process. Mr. Brady recommended that City Auditor Gary Ray attend the next Finance Committee meeting and make a presentation relative to the Annual Audit Plan.

Chairman Walters commented that in the two years she has served on the Finance Committee, it has reviewed, for instance, various fee structures, but said that Mesa has not been an organization that has looked at audits and possible conflicts between the City Auditor and a department manager that might arise as a result of an audit. She stated that ultimately, the public holds the Council accountable for the finances of the City and added that associated with the recommendation for a new Auditor was the goal of elevating the public's trust.

Committeemember Rawles concurred with Chairman Walters' suggestion regarding the Finance Committee being provided with copies of audits and added that if the results of a specific audit affect City policy, then the full Council should also have the opportunity to review the audit.

Chairman Walters requested that staff provide information regarding the following questions: 1.) Is there a more frequent audit schedule that is established for those areas of the organization that handle, for instance, cash as compared to those that do not; and 2.) In addition to regularly scheduled audits, are surprise audits conducted in areas that are specifically vulnerable.

Assistant to the City Manager Debbie Dollar stated that City Auditor Gary Ray was on vacation and introduced Senior Auditor Jennifer Ruttman, who was prepared to respond to questions regarding this agenda item. She reported that historically, staff has not brought audits to the Council and explained that they have been directed by and "run through" the City Manager's Office on a routine basis or when an issue needed to be addressed. Ms. Dollar added that staff has discussed the fact that the audit process has been a very "low key operation," which has resulted in the Council being unaware of issues that have arisen.

Committeemember Rawles said that generally speaking, he has not heard comments from citizens regarding Mesa employees stealing and/or losing City funds. He noted that the existing processes to prevent such occurrences appear to be more than adequate, but suggested that they could be "funneled" through the Finance Committee and perhaps given greater publicity to demonstrate that the City's methods are as fraud proof as possible.

Committeemember Rawles reiterated his previous comments that he thought the Council envisioned a broader scope for the new City Auditor than what Chairman Walters described. He stated if that is not the case, then the existing City Auditor should report to the Council, and meet annually with the Finance Committee and Mr. Brady to develop an Audit Plan. Committeemember Rawles added that per the Charter amendment, the City Auditor is now required to report to the City Council.

Committeemember Griswold said that he is looking for some kind of Special Council Performance Review and stated that the term "Auditor" may not have been the correct title. He also cited various topics that were discussed by the Financing the Future Citizen Committee

which dealt with the ramifications of possibly selling the City's electric utility, proposed ISD upgrades to the City's computer system, and the difficulty, if not impossibility, of one auditor having the expertise to assess those items.

Mr. Brady acknowledged the difficulty of finding one person with wide-ranging expertise in many areas. He also advised, in response to Committeemember Griswold's comments, that it would be appropriate for Utilities Manager Dave Plumb to update the Council regarding the ongoing utilities system assessment that is intended to offer a more in-depth view of the condition of the infrastructure. Mr. Brady stated that it would also be prudent to bring in consultants to assess the value of Mesa's electric utility. He further suggested that it might be appropriate for the Council to select (outside of the Annual Audit that would be accomplished internally) broader issues (i.e., gas or electric utilities) that would require specialized attention and said the City could facilitate bringing in specialists to conduct independent reviews and provide intermittent briefings to the Council regarding those matters.

Committeemember Rawles referred to the City Auditor job description and proposed expanding the duties of that individual, who is appointed by the Council and reports directly to the Council Audit Committee, as follows: Planning and directing the financial and fiscal compliance, program, operational and computer audits of City programs and related agencies **and identifying and finding specialists to help the Council evaluate technical issues that have major policy considerations.**

Chairman Walters stated that she envisions an individual who would provide the Council with advice, but who "doesn't have a dog in the hunt." She acknowledged that Mr. Brady is new to the City, but noted that after some time, the City Manager becomes such an integral part of the organization and is required to negotiate, for example, countless contracts. She added that everything has political implications for the person in that position and questioned how the City Manager would be able to separate all of the political implications from the "hard numbers advice."

Committeemember Griswold stated that he perceives the new Auditor as someone who would be directed to conduct special assessments or "missions" and report those findings to the Council. He noted that examples of such assessments could include the replacement of an antiquated financial system or proposed upgrades to a computer system.

As extensive discussion ensued among the Committeemembers regarding possible models for the new City Auditor position. (The complete audiotape of the discussion is available for review in the City Clerk's Office.)

Chairman Walters noted that it was her recollection of previous discussions regarding this item that the new City Auditor would report to the Council, and that both the Council and the City Manager could request that audits be performed. She also stressed the importance of the Auditor conducting not only financial audits, but also operational audits. Chairman Walters further commented that the name of the Finance Committee should be changed to the Finance and Audit Committee, and that its scope of work be clearly defined and include the fact that the Committee would receive the Annual Audit Plan and various audit reports.

In response to a series of questions by Committeemember Rawles, Ms. Ruttman clarified that there is a fundamental difference between an audit and a special engagement in terms of

consulting, and said that is the reason there are different entities such as Andersen Consulting and Arthur Andersen, the audit firm. She explained that there is a fine line between making management recommendations in terms of the actual management of an entity as compared to reporting on the efficiency of the operation. Ms. Ruttman added that her office can do performance audits (and has received extensive training), with the caveat that they are performed according to established industry standard practices. She noted, however, that her office would not recommend, for instance, the sale of the City's electric utility, and explained that this would require specific expertise in that area.

Additional discussion ensued among the Committeemembers regarding differing interpretations of the Proposition 101 ballot language.

Chairman Walters requested that staff provide the Committee with Scottsdale and Phoenix's City Charter language referencing the City Auditor positions in those communities. She also asked that staff research the documentation that governs and defines the scope of the body of work of the various Council Committees.

Committeemember Rawles summarized the elements of a possible model that would require the City Auditor to report to the Council and the Finance and Audit Committee; be responsive to the City Manager with regard to the formulation of the Audit Plan; perform regular audit functions; and oversee and engage in process and quality review on special projects (as requested by the Council) that are performed by outside specialists.

Further discussion ensued relative to the establishment of policy guidelines regarding the process of bringing audits to the Finance and Audit Committee.

Committeemember Rawles commented that if it becomes unnecessary to hire additional staff for the City Auditor's Office, then perhaps a portion of the funds that have been budgeted for that office could be used to pay for special projects that would be conducted by independent consultants. He also requested that the Council have the opportunity to review all future ballot language.

Chairman Walters thanked everyone for their input and stated that she looks forward to future meetings to discuss this item.

2. Adjournment.

Without objection, the Finance Committee Meeting adjourned at 9:40 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Finance Committee meeting of the City of Mesa, Arizona, held on the 17th day of July 2006. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK