



## AUDIT & FINANCE COMMITTEE

January 20, 2011

The Audit & Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on January 20, 2011 at 8:05 a.m.

### COMMITTEE PRESENT

Scott Somers, Chairman  
Dina Higgins  
Kyle Jones

### COMMITTEE ABSENT

Christopher Brady, Ex-Officio

### STAFF PRESENT

Jack Friedline  
Trisha Sorensen  
Debbie Spinner

### 1. Items from citizens present.

There were no items from citizens present.

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

#### a. Engineering Department Contract Monitoring Follow-up Review

City Auditor Jennifer Ruttman noted that this item is a follow-up to a February 2010 audit report regarding the Engineering Department's contract monitoring process. She said that recommendations were made with respect to issuing Stop Work Orders on construction projects upon expiration of a contractor's required insurance coverage, and that contracts be established and signed prior to the performance of any design services on behalf of the City by consultants. Ms. Ruttman reported that based upon this review, the Engineering Department has successfully implemented corrective actions with respect to those items and said the contract monitoring process was operating effectively.

#### b. Police Traffic Citation Audit Procedures

Ms. Ruttman indicated that prior to 2007, the Audit Department performed monthly traffic citation audits per statutory requirements. She explained that when the City Auditor began to report directly to the Council, as approved by the voters in 2006, the responsibility for the audits was transferred to the Mesa Police Department (MPD) Fiscal Management Unit. Ms. Ruttman advised that when the MPD assumed such responsibility, the Council requested that the City Auditor review the MPD's internal policies and procedures to ensure that they complied with

State Statutes. She added that based on this review, it was the opinion of the Audit Department that the monthly traffic citation audits performed by the MPD are adequate and working effectively.

Chairman Somers congratulated the MPD for the professional and efficient manner in which it manages its affairs.

c. Annual Credit Card Security Review

Ms. Ruttman reported that the Audit Department, in conjunction with the Information Technology Department (ITD), conducts an annual review of the City's compliance with the Payment Card Industry's Data Security Standard (PCI DSS). She explained that the review focuses on the credit card handling operations by those sites in the City that accept credit cards and whether the handling of such credit card information is compliant with PCI DSS.

Ms. Ruttman advised that this was the third review conducted by the Audit Department and said that although many departments implemented the prior recommendations, some had not done so, despite having agreed to do so or asserting that they had already done so. She noted that once the departments were informed of the matter, they took action and are now in compliance with PCI DSS. Ms. Ruttman added that the Audit Department would follow up during the 2011 review to ensure that the departments continue to comply with PCI DSS.

Responding to a question from Committeewoman Higgins, Ms. Ruttman clarified that although the actual implementation of the changes would have taken only a few hours, due to staff's current workloads, it was more a matter of making it a priority.

d. Southwest Ambulance Contract Follow-up Review

Ms. Ruttman explained that this item is a follow-up to an April 2009 audit report of the City's contract with Southwest Ambulance. She stated that the audit report included recommendations as follows:

- Improve the data and processes used to measure Southwest Ambulance's emergency (Code 3) response times.
- Negotiate more favorable contract terms.
- Solicit available information for assessing Southwest Ambulance's performance.
- More accurately recover reimbursements from Southwest Ambulance for Mesa Fire Department (MFD) paramedic ride-ins, including approximately \$28,000 in prior period under-reimbursements.

Ms. Ruttman reported that the audit revealed that the MFD had not implemented many of the 2009 corrective action plans, which was primarily due to staffing changes that occurred at that time and the fact that the responsibilities associated with these tasks were not passed on to the individual assigned to perform such duties.

Responding to a question from Chairman Somers, City Attorney Debbie Spinner stated that it was her understanding that once the City of Mesa and the other contract partners negotiate a new contract with Southwest Ambulance, it must then be approved by the Arizona Department

of Health Services (DHS). She noted that the City has received some feedback from DHS, made revisions to the contract terms, and is now awaiting approval by DHS.

Ms. Ruttman further remarked that the Code 3 response times, in large part, are dependent upon the data and the systems that the City has in place in order to track them. She stated that was partly a function of Dispatch and their ability to correctly enter the data and also multiple systems used to track such information, two of which are in the process of major upgrades or implementation.

Ms. Ruttman reported that the MFD implemented four new call types to be used on certain Automatic Code 3 calls. She said that during the audit, the Audit Department was concerned with Dispatch's ability to use the new call types since queries had not been developed in the systems to identify them so that the data could be used appropriately. Ms. Ruttman noted that the next step in the process was for the MFD to consider various methods for querying such information.

Responding to a question from Chairman Somers, Ms. Ruttman stated the opinion that the MFD now has qualified staff in place who are more than capable of managing and tracking the Southwest Ambulance contract.

Ms. Ruttman confirmed that the Audit Department would provide periodic updates to the Committee regarding this item. She added that in speaking with MFD staff, they expressed confidence in completing all of the items listed in the corrective action plans.

Chairman Somers suggested that once the new Council Committee assignments have been made, that Ms. Ruttman meet with the new Chairman of the Audit & Finance Committee to discuss this matter.

#### e. ARRA Federal Stimulus Grants

Chairman Somers thanked the Audit Department for conducting an audit of the American Recovery and Reinvestment Act (ARRA) Federal stimulus grants Citywide.

Ms. Ruttman reported that \$54.7 million in ARRA stimulus funds have been awarded to the City of Mesa for various projects and programs. She explained that the departments receiving such monies include Police, Fire, Environmental & Sustainability, Transit, Streets, Water Resources and Neighborhood Services. Ms. Ruttman noted that the purpose of the audit was to determine whether the City's grant management processes were adequate and to ensure that all stimulus monies awarded to Mesa are received and expended in accordance with the requirements of grantors, including all tracking and reporting requirements.

Ms. Ruttman stated that the audit revealed that for many departments, few, if any, formal procedures have been implemented to ensure that their stimulus grants are properly managed. She advised that the responsibilities related to grants management have become the additional duties of staff who previously had no experience or training in that regard. Ms. Ruttman indicated that the Mesa Police Department (MPD), on the other hand, has dedicated the time, training and resources necessary to maintain one of the most comprehensive and effective grants management processes in the City.

Ms. Ruttman stated that it was the recommendation of the Audit Department that the City Manager's Office implement a more comprehensive grants management function than that which currently exists in the centralized Grants Coordinator position. She explained that the objective of this centralized function should be to provide departmental staff with the tools, structure and oversight needed to ensure successful management of all the grants.

Ms. Ruttman further commented that there are still a great deal of stimulus funds that the City has yet to receive because funds have not been expended and reimbursement requests have not been made. She also noted that in certain instances, stimulus monies have been "placed at risk" due to the fact that the City does not have the necessary "checks and balances" in place to ensure that the terms of the contract are met.

Chairman Somers inquired if stimulus monies are being placed at risk at the same time as the City is building certain projects. He cited, for example, if the City was building a road and failed to meet specific requirements of a grant, whether the City would be "on the hook" for the entire cost of the project.

Ms. Ruttman responded that in certain cases, specific clauses and terms must be included in the contracts. She explained that in the case of the transit grants, there was an incident in which specific clauses were not included in the design contracts, which resulted in the City "falling short" when seeking reimbursement.

Deputy City Manager Jack Friedline remarked that when the ARRA stimulus monies became available, the City switched the funding sources for certain projects in the design phase to those dollars. He also commented that staff is in contact with various Grants Administrators on almost a daily basis and said that the City was developing a process in-house to strengthen the oversight and monitoring of grants across the City. **(See Attachment 1)**

Chairman Somers commented that he did not want the City of Mesa to become an example of "fraud, waste and abuse" with respect to the stimulus funds when, in fact, that was not the case.

Acting Deputy City Manager Trisha Sorensen further advised that staff was considering accelerating the implementation of the Grants Life Cycle module within the CityEdge project, which would assist the City in tracking a grant throughout the entire process.

Chairman Somers stated that he received feedback from individuals outside of this Committee who have remarked that the City Auditor's recommendations have been implemented slower than expected. He noted that when the Council approves such recommendations, there should be a certain level of expediency in implementing them.

Mr. Friedline assured the Committee that staff has created a structure to conduct reviews of the audit results/recommendations and would collaborate with the Audit Department to ensure that such recommendations are implemented more expeditiously in the future.

2-b. Hear a presentation, discuss and provide direction to staff regarding the investment of City funds.

Controller Doug Yeskey and Manager of Technology and Innovation Alex Deshuk addressed the Committee relative to this item.

Mr. Yeskey stated that the purpose of today's presentation was to provide a brief update of the City of Mesa's investment portfolio and to seek authorization to transfer additional funds to the City's private investment manager.

Mr. Yeskey displayed a PowerPoint presentation (**See Attachment 2**) and reported that on April 1, 2010, the Audit & Finance Committee authorized staff to transfer approximately \$70 million from the Arizona State Treasurer's Office Local Government Investment Pool (LGIP) to a private investment management company. He explained that in July 2010, the City hired PFM Asset Management (PFM) to provide professional management of those funds. Mr. Yeskey stated that as of November 2010, the City's investments were allocated as follows: 20% with PFM (\$68,245,000); 80% (\$273,490,000) with LGIP.

Mr. Yeskey noted that the LGIP portfolio investment mix consists of short-term, usually overnight, low risk investments and said that November's earnings rate was 0.15% (net of 6 basis point fees). He advised that PFM's portfolio includes U.S. Treasury Notes, Federal Agency Bonds, and low risk investments with maturity dates ranging from less than 6 months, 6 to 12 months, 1 to 2 years and 2 to 3 years. Mr. Yeskey added that PFM's November earnings rate was 0.54% (net of 9 basis point fees for under \$200 million invested).

In response to a question from Committeewoman Higgins, Mr. Yeskey clarified that the City of Mesa is not required statutorily to participate in the LGIP, but has historically done so.

Mr. Yeskey provided a brief statistical analysis of the LGIP, PFM and one-year Treasury Note yields and the respective interest earnings. (See Page 4 of Attachment 2) He noted that the City received an estimated \$142,381 in interest by transferring City funds from the LGIP to PFM.

Mr. Yeskey further remarked that in considering whether to increase the City's investment with PFM Asset Management, staff determined that it would be necessary to leave \$40 million in the LGIP in order to meet day-to-day operational requirements of the City (i.e., payroll) and also to coordinate with PFM with respect to the City's debt service payments that occur in January and July.

Mr. Yeskey explained that it was staff's recommendation to transfer an additional \$200 million from the LGIP to PFM over a period of time. He stated that staff has already negotiated a decrease in the fees that PFM would charge the City from 9 basis points to 6 basis points once the City invested more than \$100 million with the firm. Mr. Yeskey noted that based on current economic conditions, if an additional \$200 million was transferred to PFM and such funds remained at the firm for one year, the City would realize an estimated \$1.4 million increase in interest earnings as compared to leaving those monies in the LGIP.

Responding to a question from Committeewoman Higgins, Mr. Yeskey clarified that PFM is restricted to invest the City's funds only in U.S. government-backed securities.

Discussion ensued relative to the fact that the process by which the City could draw out monies from PFM would be more restrictive than from the LGIP; that the securities are structured to mature every 3, 6, 9 or 12 months; and that the City could sell securities through PFM at a moment's notice, but the City could experience a potential loss in doing so.

In response to comments made by Chairman Somers, Mr. Deshuk clarified that as part of staff's proposal to transfer \$200 million to PFM, \$73 million would remain in the LGIP, which would provide "more than a sufficient cushion" with respect to the City's cash flow operating requirements.

Committeemember Jones inquired regarding the long-term history of Pool 7 and the possible downside of the City moving such a large amount of money to PFM.

Mr. Yeskey reiterated that if the City left its funds in the LGIP, there would be a relatively low risk due to the fact that the investments are in a U.S. government pool that yields a lower rate (i.e., overnight Repurchase Agreements). He explained that transferring the funds to PFM would generate a higher return, but noted that accessing the funds is more restrictive. Mr. Yeskey added that the City would structure the purchases with PFM so that the securities mature every six months in order to meet the City's cash flow needs.

Mr. Deshuk further remarked that the PFM portfolio is actively managed and said that Mr. Yeskey and his staff meet monthly, if not more, with the investment brokers to review economic indicators and assess how well the portfolio is performing.

Committeemember Jones stated that although the portfolio is actively managed, he questioned whether it was wise for the City to make such a large transfer of funds to PFM at one time.

Mr. Yeskey clarified that staff's proposal was not to transfer \$200 million to PFM overnight, but rather to do so gradually over time. He stated that last April, the Committee limited the transfer of City funds to PFM to \$70 million and said that it has taken almost six months for the City to invest the full amount.

Committeemember Jones stated that after hearing Mr. Yeskey's explanation, he was more comfortable with staff's proposal to invest with PFM on a gradual basis.

In response to a question from Chairman Somers, Mr. Yeskey reiterated that the City would amend its contract with PFM so that once the City invested \$100 million with the firm, it would lower its fees from 9 to 6 basis points.

Committeemember Jones suggested that as soon as it was reasonable, the City should transfer additional funds to PFM to reach \$100 million in order to receive the reduction in fees and added that the additional transfers should be done on a gradual basis.

Additional discussion ensued relative to the fact that in 2002, the State bought an asset-backed investment, consisting of Medicare receivables that were packaged and sold as securities, for the LGIP Pool 5; that the investments were fraudulent, resulting in the State as a whole losing over \$150 million; that the City lost approximately \$6.6 million in the LGIP Pool 5 and has recovered an estimated \$3.3 million as of today; and that a class action suit was filed by the State, the City and a number of municipalities locally and nationally against a number of entities that were partially responsible for the fraud.

Chairman Somers stated that it was the concurrence of the Committee that this item be forwarded to the full Council.

Ms. Spinner clarified that the recommendation of the Committee was to allow the full transfer of an additional \$200 million to PFM over a period of time.

Chairman Somers confirmed Ms. Spinner's statement and said that if there were concerns among the full Council that the transfer amount should be less, they could make that determination.

Chairman Somers thanked staff for the presentation.

3. Adjournment.

Without objection, the Audit & Finance Committee meeting adjourned at 8:48 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit & Finance Committee meeting of the City of Mesa, Arizona, held on the 20<sup>th</sup> day of January 2011. I further certify that the meeting was duly called and held and that a quorum was present.

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LINDA CROCKER, CITY CLERK

pag  
(attachments – 2)



## CITY MANAGER'S OFFICE

**TO:** Jennifer Ruttman, City Auditor  
**FROM:** Trisha Sorensen, Acting Deputy City Manager  
**THROUGH:** Christopher Brady, City Manager  
**DATE:** January 10, 2011  
**SUBJECT:** Response to Stimulus Funds Audit Dated 12/9/10

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The City Manager's Office concurs with the findings outlined in the City Auditor's Office December 9, 2010 report on stimulus funds.

In early October, I assigned Tom Lavell, Contract Administrator, to review the grants processes at the request of the City Manager in response to an issue that surfaced in the Engineering Department regarding a stimulus funded project. Based on this review and in-depth analysis, as well as your audit report, the City is working to strengthen grants administration across the city. Our efforts include:

- **Grant Administration:** We are redefining the currently vacant Grant Coordinator position in the City Manager's Office to strengthen this positions' oversight of grants processes across the city. The position will focus on pre-award activities including grant seeking and application with an emphasis on ensuring departments understand their oversight and monitoring responsibilities for grants they obtain.
- **Grant Compliance:** The Contract Administrator, Tom Lavell, take on additional duties as they relate to grant oversight and compliance to include:
  - Training coordination
  - Development and implementation of control procedures
  - Program audit and monitoring oversight
  - Centralized tracking of grant agreements
  - Facilitating interdepartmental coordination
- **Grant Accounting:** In close coordination with the Contract Administrator, the Assistant Controller will take the lead on:
  - Policy development
  - Implementation of the Grant Life Cycle module in CityEdge
  - Development and implementation of control procedures
  - Assisting in training development and delivery

Together, these actions will strengthen grant oversight and monitoring across the city for the complete life cycle of a grant.



# City of Mesa Investment Portfolio Review

Audit and Finance Committee  
January 20, 2011



## City of Mesa Investment Portfolio Review

- Current Investment Strategy

- On April 1, 2010, Audit & Finance Committee authorized staff to pursue an outside private firm to maximize investment returns.
- 11/30/2010 PFM Asset Management Placement \$ 68,245,000 20%
- Local Government Investment Pool (LGIP) \$273,490,000 80%



## City of Mesa Investment Portfolio Review

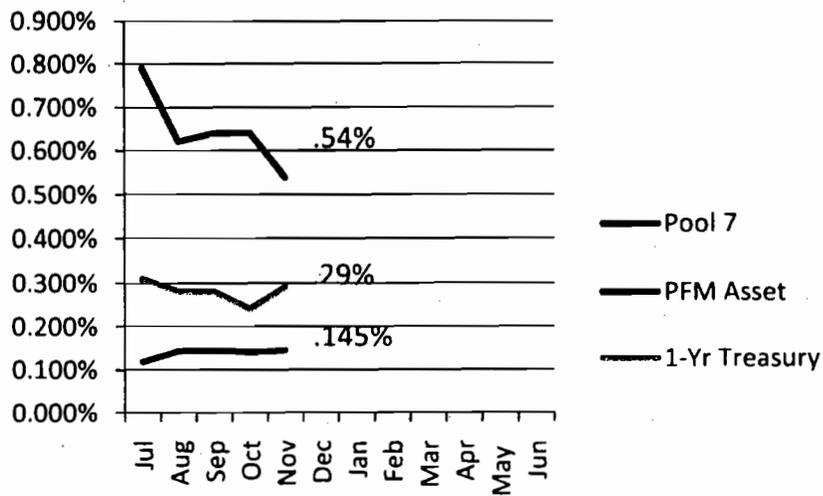
- LGIP Portfolio Investment Mix
  - Short term, usually over-night, low risk investments
  - November earnings rate 0.15% (net of 6 basis point fees)
  
- PFM Portfolio Investment Mix
  - US Treasury Notes, Federal Agency Bonds, low risk investments with maturity from under 6 months, 6 – 12 months, 1 -2 years and 2 – 3 years.
  - November earnings rate 0.54% (net of 9 basis point fees for under \$200M invested)



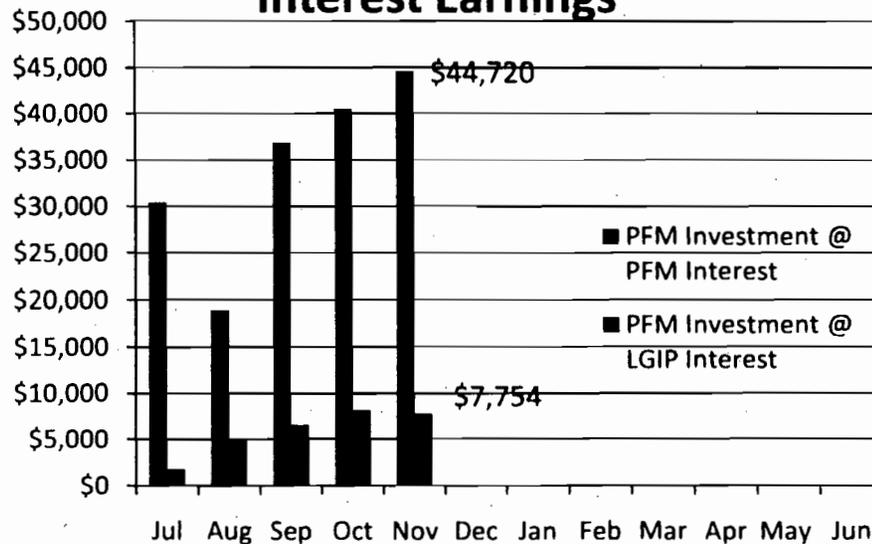
# City of Mesa Investment Portfolio Review

- Portfolio Comparisons

### Pool 7, PFM, 1-Yr. Treasury Yields



### Interest Earnings



Cumulative PFM vs Pool 7 Earnings \$142,381



## City of Mesa Investment Portfolio Review

- **Cash Flow Operating Requirements**
  - Day to Day Requirements \$ 40,000,000
  - Coordinate with PFM on Debt Service Payment January & July
  - LGIP Investment \$273,490,000
  
- **Recommendation**
  - Current PFM Portfolio Investment \$ 68,245,000
  - Increase PFM Portfolio Investment to \$270,000,000
  - Drop in fees from 9 to 6 basis points 0.09% to 0.06%
  
- **Earnings Projected On Additional \$200 million \$1,451,000**