



AUDIT & FINANCE COMMITTEE MINUTES

December 14, 2009

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 December 14, 2009 at 4:01 p.m.

COMMITTEE PRESENT	COMMITTEE ABSENT	STAFF PRESENT
Scott Somers, Chairman Dina Higgins Kyle Jones Christopher Brady, Ex-Officio	None	Bryan Raines Debbie Spinner

1. Items from citizens present.

There were no items from citizens present.

2. Hear a presentation and accept the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2009.

City Controller Doug Yeskey addressed the Committee and introduced Carter Smitherman, a principal with LarsonAllen, LLP. He explained that LarsonAllen acquired Cronstrom, Osuch & Company, the Certified Public Accounting firm that Mesa previously retained to perform the audit of the City's financial statements. Mr. Yeskey stated that Mr. Smitherman performed prior audits for the City during his tenure with Cronstrom, Osuch & Company.

Mr. Yeskey advised that the above-referenced Comprehensive Annual Financial Report (CAFR), copies of which were provided to the Committee, is the City's audited financial statements for the Fiscal Year ended June 30, 2009. **(The CAFR is available for review in the City Clerk's Office.)** He thanked his staff for their dedication and hard work in completing the CAFR in a timely manner.

Mr. Smitherman also acknowledged the preparations by City staff, which facilitated a smooth and professional audit process. He directed the Committee to Page 3 of the CAFR, "Management's Discussion and Analysis" **(See Attachment 1)** and provided a brief overview of various financial highlights as follows:

- The City's total net assets decreased \$67.6 million in Fiscal Year 2009.

- Total net assets of the City are \$1.75 billion, of which \$370 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. However, \$313 million of the unrestricted net assets are invested in joint ventures as of June 30, 2009.

Discussion ensued relative to the Other Post-Employment Benefit (OPEB) cost, which the City will pay out to eligible retirees in the future; that as of last year, Mesa was required, per the Governmental Accounting Standards Board (GASB), to accrue such cost as a liability and an expense on the City's financial statements; that the net OPEB obligation at the end of the fiscal year was approximately \$112 million, of which an estimated \$54 million was expensed; and that such cost would impact the City's total net assets.

Mr. Smitherman continued with his overview of the financial highlights as follows:

- As of the end of fiscal year 2009, the City's governmental funds reported a combined ending fund balance of \$196.8 million, a \$17 million increase from the previous year.
- At the end of the fiscal year, the City's unreserved fund balance for the General Fund was \$74.7 million, or 19.6% of total General Fund expenditures, compared to \$50.3 million, or 12.7% of total General Fund expenditures the previous year.
- The City issued \$61.8 million in General Obligation debt during the current fiscal year for new storm sewer and public safety improvement projects.
- The City issued \$59.9 million in taxable utility system revenue debt during the current fiscal year. These taxable bonds qualify as Build America Bonds under the American Economic Recovery and Reinvestment Act (ARRA) of 2009 and include a 35% interest rebate from the Federal government that will total \$30.8 million over the life of the bonds.

Mr. Smitherman referenced the "Independent Auditor's Report" and stated that his firm issued an unqualified opinion regarding the City's financial statements for the Fiscal Year ended June 30, 2009. **(See Attachment 2)** He advised that his firm encountered no difficulties in dealing with management in performing and completing the audit. Mr. Smitherman also stated that his firm made two recommendations to City management with regard to upgrading the City's accounting system and better managing its cash balances by the reimbursement of eligible grant expenditures on a regular basis. **(See Attachment 3)**

In response to a question from Committeemember Higgins, City Manager Christopher Brady clarified that staff has released the Request for Proposals (RFP) with regard to the City's Financial System Replacement Project (CityEdge). He stated that staff's biggest challenge is not the desire to upgrade the system, but determining how it would be funded. Mr. Brady added that the new system would provide opportunities for greater efficiency, especially with regard to various payroll functions.

Deputy City Manager Bryan Raines expressed appreciation to the audit firm and City staff for their hard work and professionalism throughout this process.

Chairman Somers stated that he looks forward to the implementation of CityEdge, which will bring Mesa's financial system into the 21st century.

It was moved by Committeemember Jones, seconded by Committeemember Higgins, to recommend to the Council that the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2009, be accepted.

Carried unanimously.

3. Hear a presentation, discuss and provide direction on the following audits:

a. Adults Sports Program

Interim City Auditor Jennifer Ruttman reported that the audit of the Adult Sports Program was conducted not as a follow-up review to the prior Adult Softball Program audit, but because it stemmed from similar internal control concerns.

Ms. Ruttman explained that the auditor's first finding was that the Parks, Recreation and Commercial Facilities (PRCF) Department seek clarification from the current City Council regarding its cost recovery expectations for the Adult Sports Program. She stated that the auditor verified that the program is currently recovering its direct costs, but noted that in order to achieve full cost recovery, it would most likely be necessary to increase registration fees to levels that are above the current market.

Ms. Ruttman introduced Senior Internal Auditor Jason Taylor, who conducted the Adult Sports Program and the Petty Cash/Change Fund audits. (Items 3a and 3b)

In response to a question from Chairman Somers, Mr. Taylor clarified that the indirect costs include field maintenance, which consists of mowing, fertilization, rest room cleaning and trash pickup. He said that such costs would be incurred regardless of whether adult sports teams are using the fields or not.

City Manager Christopher Brady noted that the question for the Committee to consider is whether the field maintenance costs should be allocated to the Adult Sports Program. He explained that a prior City Council directed staff to work towards achieving 100% cost recovery of the Adult Sports Program so that such costs would not be subsidized by the General Fund. Mr. Brady said that staff addressed costs such as registration and contracted sports officials, but not field maintenance.

Ms. Ruttman assured the Committee that the PRCF Department made a concerted effort to capture all of the costs associated with the Adult Sports Program as directed by the previous Council. She stated that the auditor noted minor accounting issues with regard to staff's ability to "pick up" and track certain indirect costs, but said that the failure to capture those costs was not done intentionally.

In response to a question from Committeemember Jones, Ms. Ruttman stated that lighting/electricity usage is one of the direct costs that the Adult Sports Program is recovering.

Committeemember Jones noted that as a member of the previous Council that directed staff to recover as many of the costs as possible for the Adult Sports Program, it was his intention that such costs be more administrative in nature (i.e., officiating, management, and lighting) as opposed to field maintenance.

Ms. Ruttman confirmed that the Adult Sports Program is currently recovering the costs mentioned by Committeemember Jones.

Discussion ensued relative to the fact that the fees associated with the Adult Sports Program have been raised in the past few years, resulting in Mesa being at the higher limit of the market; that Mesa currently has over 1,000 softball teams and 100 flag football teams participating in the Adult Sports Program; and that Mesa has a higher participation rate in such activities as compared to other Valley communities.

Deputy City Manager Bryan Raines indicated that it was staff's concern that if the Adult Sports Program attempted to achieve full cost recovery by raising its fees, individuals may choose to no longer participate in the program. He suggested that the Committee discuss this matter, as it relates to fees and charges, during the budget hearing process.

In response to a question from Chairman Somers, Mr. Raines noted that when basketball, volleyball and soccer were eliminated from the Adult Sports Program several years ago, they achieved approximately 87% cost recovery.

Committeemember Jones proposed that the PRCF Department continue to charge its current level of fees for the Adult Sports Program. He stated that if there is a need to increase the fees because of direct costs, he would support the action.

Chairman Somers inquired if Committeemember Jones was suggesting that staff seek to recover direct costs for the Adult Sports Program and Committeemember Jones said that he was.

Committeemember Higgins suggested that it might be appropriate for the PRCF Department to make a presentation to the Committee as it relates to full cost recovery of those sports (i.e., volleyball, basketball, soccer and baseball) that were eliminated from the Adult Sports Program.

Ms. Ruttman responded that it was the auditor's recommendation that the PRCF Department obtain clarification from the Council with regard to its cost recovery expectations for the Adult Sports Program.

Mr. Brady recommended that it would be best to discuss this issue in the context of the budget, at which time staff would present the fees and charges to the Committee.

Chairman Somers stated that within the context of the budget, the Committee would like to review all of the direct costs associated with the Adult Sports Program and hear a presentation regarding the sports that were eliminated from the program. He added that the Council could then determine whether it wanted to direct staff to work toward 100% cost recovery of the Adult Sports Program or a lesser amount.

Further discussion ensued relative to the auditor's second finding, which related to a key PRCF Department employee who had excessive access rights to the financial system, despite the fact that the Department had previously agreed to limit such access; and that the PRCF Department reviewed and adjusted all security levels to ensure that the level of access reflected the employee's job duties.

Chairman Somers thanked staff for the presentation.

b. Petty Cash/Change Fund

Ms. Ruttman reported that this item is a follow-up review of a 2008 Citywide audit that Mr. Taylor conducted of petty cash and change funds, at which time a few minor internal control weaknesses were identified. She explained that the recent audit noted the same weaknesses due to the fact that many of the fund custodians did not have adequate knowledge and understanding of Management Policy 203 – Petty Cash and Change Funds.

Ms. Ruttman stated that the auditor recommended that the Accounting Services Division revise the Petty Cash Custodian Transfer form in order to require custodians to acknowledge that they have read and understand Management Policy 203. She added that initially, all current custodians should be required to review the policy, sign the form and return it to Accounting Services.

Ms. Ruttman further commented that the Accounting Services Division concurred with the auditor's findings and revised the Petty Cash Custodian Transfer form as requested. She said that Accounting Services will also contact all current petty cash custodians and require them to acknowledge they have read and understand Management Policy 203.

In response to a question posed by Chairman Somers, Ms. Ruttman explained that the issue of the Auditor's Office conducting "spot checks" of petty cash custodians and the resources dedicated to such activity would be discussed when the Audit Plan is presented to the Committeemembers for their consideration.

Chairman Somers thanked everyone for the presentation.

4. Adjournment.

Without objection, the Audit and Finance Committee meeting adjourned at 4:38 p.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 14th day of December 2009. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Mesa, Arizona (the City), we offer this discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. This discussion and analysis is designed to 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the City's financial activities, 3) identify changes in the City's financial position, 4) identify any material deviations from the financial plan (the approved annual budget), and 5) identify individual fund issues and concerns.

The management's discussion and analysis should be read in conjunction with the transmittal letter presented on pages V-IX, as well as the financial statements beginning on page 18 and the accompanying notes to the financial statements.

Financial Highlights

- The City's total net assets decreased \$67.6 million in fiscal year 2009.
- Total net assets of the City are \$1.75 billion, of which \$370 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. However, \$313 million of the unrestricted net assets are invested in joint ventures as of June 30, 2009.
- As of the end of fiscal year 2009, the City's governmental funds reported a combined ending fund balance of \$196.8 million, a \$17 million increase from the previous year. A complete reconciliation of the governmental funds' fund balance to the governmental activities' net assets is on page 22.
- At the end of the fiscal year, the City's unreserved fund balance for the General Fund was \$74.7 million, or 19.6% of total General Fund expenditures, compared to \$50.3 million, or 12.7% of total General Fund expenditures the previous year.
- The City issued \$61.8 million in general obligation debt during the current fiscal year for new storm sewer and public safety improvement projects.
- The City issued \$59.9 million in taxable utility system revenue debt during the current fiscal year. These taxable bonds qualify as Build America Bonds under the America's Economic Recovery and Reinvestment Act of 2009 and include a 35% interest rebate from the Federal government that will total \$30.8 million over the life of the bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and the City Council of the
City of Mesa, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mesa, Arizona (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mesa, Arizona, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Highway User Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Honorable Mayor and the City Council of the
City of Mesa, Arizona

The management's discussion and analysis on pages 13 through 17, the Public Safety Personnel Retirement System Schedule of Funding Progress on page 59 and the Other Postemployment Benefit Plan Schedule of Funding Progress on page 62 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, supplemental information, introductory section and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining and individual nonmajor fund financial statements and supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Larson Allen LLP

LarsonAllen LLP

Mesa, Arizona
December 8, 2009

LarsonAllen
LLP
CPAs, Consultants & Advisors
www.larsonallen.com

Audit Committee
City of Mesa, Arizona
Mesa, Arizona

In planning and performing our audit of the financial statements of City of Mesa, Arizona as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening operating efficiency. This letter does not affect our report dated December 8, 2009, on the financial statements of City of Mesa, Arizona.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Accounting System

The City has used its accounting system for approximately 35 years. The system does not allow the City to take advantage of efficiencies that could be gained by current information technology. In addition, due to the age of the system, the changes in generally accepted accounting principles and the increasing complexity of accounting transactions over the past 35 years, the City has had to incorporate duplicative manual internal controls over the reporting system. The City should consider upgrading its accounting system.

Grant Reimbursements

Most of the City's grants are funded on a reimbursement basis. The grants require the City first incur and fund an eligible expenditure and then apply for reimbursement of the expenditure. However, not all reimbursements are requested on a regular basis. In order to better manage the City's cash balances, reimbursement of eligible grant expenditures should be made on a regular basis.

We wish to thank City of Mesa, Arizona personnel for their assistance during the audit. Please feel free to contact us concerning our audit or the contents of this letter.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
December 8, 2009



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