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## AUDIT REPORT

CITY AUDITOR

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**Report Date:** November 29, 2018  
**Department:** Financial Services  
**Subject:** Eastmark CFD  
**Lead Auditor:** Karen Newman

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### **OBJECTIVE**

This audit was conducted to determine whether effective controls are in place to provide reasonable assurance that Eastmark Community Facilities District (CFD) costs and revenues are accurately and completely accounted for and collected.

### **SCOPE & METHODOLOGY**

The audit scope included Eastmark CFD assessments, revenues and expenses for fiscal year 2018. To meet our objective, we interviewed staff members, reviewed Eastmark CFD procedures and agreements, reviewed assessment, revenue and expense documentation, and performed other tests and procedures as necessary.

### **BACKGROUND**

"The Eastmark CFD was formed at the request of the property developers through the City of Mesa as a means of obtaining community funding for property development. Funding is used for building parks, roadways, sewer, water storm drain, signage, street light, landscape and related improvements. Bonds are issued and assessed to the property owners within a CFD."

(Source: "What is a Community Facility District?" at <https://www.mesaaz.gov/residents/eastmark-cfd>.)

The City's Financial Services Department is responsible for the financial administration of the Eastmark CFD. Their responsibilities include accounting for bond payments and prepayments; recording assessment payments received from Maricopa County; calculating and recording fixed assessment payoffs; and filing lien releases. They also provide cost estimates which are used to determine the amount of the annual "O/M tax" levy.

### **CONCLUSION**

In our opinion, effective procedures and controls are in place to provide reasonable assurance that Eastmark Community Facilities District (CFD) costs and revenues are accurately and completely accounted for and collected. However, we identified an opportunity to further ensure that all applicable City costs are recovered. For additional details and management's response, please see the attached Issue and Action Plan (IAP). We plan to perform a brief follow-up review in approximately 12 months, to determine whether the action plan has been effectively implemented.

### Issue and Action Plan

#### **Issue #1: Incomplete recording of salaries and benefits associated with the CFD.**

**Observation:** The City is recovering most, but not all, applicable expenses associated with the Eastmark CFD.

**Criteria:** Under the terms of the development agreement for Eastmark CFD, the District will "*annually levy, assess and collect an ad valorem tax in an amount up to \$0.30 per \$100.00 of assessed valuation against all taxable property in the District (hereinafter referred to as the "O/M Tax") to provide for amounts to pay the administrative, operation and maintenance expenses of the District...*" In order to recover these expenses, they must be accurately recorded.

**Comments:** When salary and benefit expenses were posted to the Eastmark Operating and Maintenance Fund, some fringe benefit expenses were omitted. This was caused by a system limitation.

Some staff members doing CFD-related work have not always charged those work hours to the CFD.

**Recommendation:** **1-1.** Financial reports should be periodically reviewed to ensure all salary and benefit costs for Eastmark are completely and accurately recorded.

**1-2.** Employees doing CFD-related work should be instructed, and periodically reminded, to charge those work hours to the CFD. This is particularly important for areas with higher staff turnover rates.

**Management  
Response:**

**Action Plan #1-1:**

Finance will review salary and benefit costs charged to Eastmark on a quarterly basis to ensure completeness and accuracy.

**Individual Responsible:** Irma Ashworth, Finance Director

**Estimated Completion Date:** March 2019

**Action Plan #1-2:**

As part of the quarterly review, Finance will work with applicable City department employees to remind them about the importance of allocating time to Eastmark.

**Individual Responsible:** Irma Ashworth, Finance Director

**Estimated Completion Date:** March 2019