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Date: May 19, 2014

To: Audit, Finance and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Follow-up Review – Audit of DMA Agreements

cc: Mayor and Council
Bill Jabjiniak, Economic Development Department Director
Natalie Lewis, Assistant to the City Manager

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of our audit of our audit of the City's agreements with the Downtown Mesa Association (DMA). The final report is attached and will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. Please feel free to contact me with any questions or concerns.



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FOLLOW-UP REVIEW

CITY AUDITOR

Report Date:	May 19, 2014
Department:	Economic Development
Subject:	Downtown Mesa Association (DMA) Agreements
Auditor:	Bill D'Elia, Sr. Internal Auditor

OBJECTIVE

The objective of this review was to determine whether the Economic Development Department has effectively implemented the action plans presented in their responses to our May 2013 audit of the DMA Agreements.

SCOPE & METHODOLOGY

To accomplish our objective, we interviewed City staff members; reviewed the current agreement between the DMA and the City (one agreement has replaced the two prior agreements); analyzed the DMA's financial statements for the prior fiscal year and current fiscal year to date; and reviewed parking revenue collection procedures and insurance documents.

BACKGROUND

In 2013, we audited the Parking and Special Improvement District #228 (SID) Agreements between the City of Mesa and the Downtown Mesa Association to determine whether the City and the DMA were operating in compliance with the terms of the agreements. Based on our findings, we recommended that Economic Development do the following:

- Monitor the DMAs' revenues and expenditures to ensure that future agreements do not provide significantly more funds than are needed to provide the services.
- Work with the DMA to determine the most appropriate use of accumulated funds.
- Ensure controls are in place to safeguard City parking funds from loss.
- Require the DMA to submit its revenue collection and accounting procedures to the City's Financial Services Department for review and approval.
- Obtain required certificates of insurance from the DMA, and review coverage annually for compliance with the agreements.
- Modify the agreements to ensure they contain only terms the parties intend to enforce.

CONCLUSION

In our opinion, all of the corrective actions planned by management in response to the audit have been substantially implemented. However, due to some miscommunication, the DMA's revenue collection and accounting procedures were not reviewed by the Financial Services Department until after the start of this review. A complete list of the original recommendations and departmental responses, along with our findings regarding the implementation status of each corrective action plan, is presented in the attached Appendix.

APPENDIX

✓ = Implemented ◆ = In Progress X = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>
CAP#1: The City has not critically evaluated the DMA's funding requirements.	
<p>Recommendation #1: Management should require City staff to regularly monitor the DMA's revenues and expenditures, to ensure that future agreements do not provide significantly more funds than are needed to provide the services.</p> <p>Management Response: <i>"City staff will regularly monitor DMA's revenues and expenditures for all services.</i></p> <p><i>City staff will work with DMA to review and adjust the agreements in a manner which more accurately reflect services and expectations."</i></p>	<p>Implemented</p> <p>Economic Development Staff appropriately monitored the DMA's revenues and expenses.</p> <p style="text-align: right; color: green; font-size: 24px;">✓</p>
<p>Recommendation #2: Management should work with the DMA on an annual basis to determine the appropriate disposition of funds accumulated by DMA in excess of established reserves. Consideration should be given to re-budgeting the funds for the next contract year, which may provide some relief to the City's General Fund.</p> <p>Management Response: <i>"City staff will continue working with DMA to determine uses for the funds which closely align with the City's original intent based on the agreements and DMA's core mission.</i></p> <p><i>Please note, the board recently approved and allocated approximately \$120,000 for new banners and brackets, an updated parking plan, vehicle and equipment maintenance and replacement, and a plan for a way-finding signage program."</i></p>	<p>Implemented</p> <p>The DMA has re-budgeted funds for two consecutive fiscal years, using accumulated funds to offset funds normally received from assessments.</p> <p style="text-align: right; color: green; font-size: 24px;">✓</p>
CAP#2: Controls related to parking revenue collection have not been enforced.	
<p>Recommendation #1: The City should require the DMA to obtain an audit of the parking program collections and accounting procedures each year; or should modify the agreement to include alternative controls to ensure City funds are safeguarded from loss. If an audit is required, the report should be submitted to the Economic Development Department rather than to the City Auditor.</p>	<p>Implemented</p> <p>The City modified the agreement to include alternative controls to ensure City funds are safeguarded from loss.</p> <p style="text-align: right; color: green; font-size: 24px;">✓</p>

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<u>Corrective Action</u>	<u>Implementation Status</u>	
<p>Management Response: <i>"City staff will work with DMA to obtain a review and approval of the parking program collections and accounting procedures. We will also modify the agreement to include alternative controls in order to safeguard City funds.</i></p> <p><i>City staff will review the established procedures annually."</i></p>		
<p>Recommendation #2: The City should require the DMA to submit its revenue collection and accounting procedures to the City's Financial Services Department for review and approval; and Economic Development should coordinate with Financial Services to ensure this is done.</p> <p>Management Response: <i>"City staff will work with DMA and the City's Financial Services Department to formally review and approve the revenue collection and accounting procedures. A copy of the policy and procedures manual will be provided to the economic development staff annually."</i></p>	<p>In Progress</p> <p>Due to some miscommunication, this review did not take place. However, after the start of this follow-up, the procedures were submitted to Financial Services for review and approval.</p>	
<p>CAP#3: Insurance documentation was not reviewed to verify compliance.</p>		
<p>Recommendation #1: Management should require the DMA to provide current and complete certificates of insurance each year; and should carefully review those certificates to verify compliance with all agreements.</p> <p>Management Response: <i>"DMA has maintained and currently carries the required amounts of insurance in accordance with the City's Agreement.</i></p> <p><i>City staff will ensure appropriate certificates of insurance are on file each year. They will also verify that the insurance complies with the agreements.</i></p> <p><i>Annually, city staff will review the current insurance coverage with the City's risk manager."</i></p>	<p>Implemented</p> <p>Economic Development obtained the required certificates of insurance and reviewed coverage to ensure compliance with the agreement.</p>	

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<u>Corrective Action</u>	<u>Implementation Status</u>
CAP#4: Agreements do not reflect current expectations.	
<p>Recommendation #1: Management should determine which contract terms are important and which ones are not, and should modify future agreements accordingly. Additional care should be taken to ensure the agreements are consistent throughout and contain only those terms the parties intend to enforce.</p> <p>Management Response: <i>“DMA staff agrees that the formats and agreements should be updated to reflect the new format.</i></p> <p><i>City staff will work with DMA and legal services to update and modify the agreements to more accurately reflect the expectations as well as obtain consistency in the agreements.”</i></p>	<p>Implemented</p> <p>The agreement has been modified to reflect only those terms the parties intend to enforce.</p> <p style="text-align: right;">✓</p>