

MOSS ADAMS_{LLP}

PROPOSAL FOR
City of Culver City

August 13, 2015

Prepared by:

Moss Adams LLP

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Los Angeles, CA 90024
(310) 477-0450

August 13, 2015

Mr. Martin Cole, City Clerk
City of Culver City
9770 Culver Boulevard
Culver City, CA 90232

Subject: Internal Auditing Services

Dear Mr. Cole,

Moss Adams LLP is extremely pleased to submit our proposal to provide internal auditing services for the City of Culver City ("City"). We understand that the objective of this engagement is to provide internal auditing services that will take the place of an in-house internal audit function, and provide continuity and efficiencies to the process while maintaining an independent and objective approach that will add value and improve the City's operations. We are confident we offer the team, capabilities, experience, approach, and level of dedicated service that will meet or exceed your expectations. Specifically, Moss Adams offers the City:

- A team with extensive experience providing local government internal auditing services.
- A comprehensive approach to internal audit program development and execution.
- A long history working with governmental entities, especially cities and counties.
- A track record of working effectively with city managers, councils, and senior management.
- A collaborative approach to working with our clients.
- Adherence to appropriate standards of the AICPA and IIA.
- Total independence and objectivity.
- An established, reputable firm with extensive local resources and expertise.

Moss Adams has read and will comply with all terms and conditions of the RFP subject to exceptions set forth in the proposal. We also received and reviewed the questions and answers issued subsequent to the RFP.

Please contact me with any questions. I can be reached at 206.302.6409 (office), 206.890.3627 (mobile), and mark.steranka@mossadams.com. We look forward to the possibility of working with you on this important undertaking. Thanks very much for your consideration.

Sincerely,



Mark Steranka, Managing Director
For Moss Adams LLP

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1. EXECUTIVE SUMMARY

Moss Adams provides a holistic approach to local government internal auditing services. We pride ourselves on not only leveraging best practices, but also serving as a source of best practices. Contained within our proposal, you will find a description of our overall service strategy, approach to individual internal audits, impacts you can expect to realize as a result of our services, innovations we bring to the internal auditing landscape, and our approach to quality control. We believe each of these characteristics of our work plan represent competitive advantages and some of the reasons other cities retain Moss Adams as their internal auditor. Specifically, we will provide the City:

- **A team with extensive experience providing local government internal auditing services.** Internal auditing services are a core competency of our practice. We have a long, successful track record serving government agencies in this capacity. Our services typically encompass risk assessments, internal control audits, fraud audits, compliance audits, operational audits, performance audits, and revenue enhancement audits. Current local government internal audit clients include Carson City, NV; Modesto, CA; Santa Monica, CA; and Stockton, CA. We also provide related services to the City of San Jose, CA and the City of Santa Rosa, CA.
- **A comprehensive approach to internal audit program development and execution.** Our approach embraces a blend of audit tools and techniques focused on risk assessment and management, internal controls, management and operations, fraud, policies and procedures, performance, and systems. The breadth of our capabilities makes us unique among our competitors. We offer services that are both practical and affordable.
- **A long history of working with governmental entities, especially cities and counties.** Moss Adams' projects have addressed all aspects of local government. Our experience with governments throughout the western United States is vast, including, but not limited to, work for cities, counties, and special purpose districts. Recent representative work has been performed for California Institute for Regenerative Medicine, Carson City, City of Issaquah, City of Modesto, City of Roseville, City of San Jose, City of Santa Rosa, City of Stockton, Housing Authority of Santa Clara County, King County, Pierce County, Snohomish County, Sonoma County, Sound Transit, and Santa Clara Valley Water District.

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- **A track record of working effectively with city managers, councils, senior management, and audit committees on a regular basis.** Because we are hired by elected officials, legislative bodies, and appointed leaders to solve challenging oversight and business practice problems at the highest levels, we are well-versed at dealing with this level of government.
- **A collaborative approach to working with our clients.** Rather than performing engagements *on* our clients, we team *with* them to address what is needed to improve operations. Our team will work closely with the City to ensure a working relationship that will provide maximum benefit in meeting the stated goals and objectives for this engagement.
- **Adherence to appropriate standards.** As part of the 200 personnel assigned to providing government services, the proposed team has completed audits for numerous government entities in accordance with Generally Accepted Government Auditing Standards (GAGAS) as defined by the Government Accountability Office's (GAO) Government Auditing Standards (Yellow Book), and consistent with the standards of the American Institute of Certified Public Accountants (AICPA) and Institute for Internal Auditors (IIA).
- **Total independence and objectivity.** Our approach is based upon straightforward analysis, bringing unbiased views and a fresh look to each situation. Nationally, we have built a solid reputation for our fair and objective approach to assessments and auditing, as well as being savvy about recommending practical, impactful solutions.
- **An established, reputable firm with extensive local resources and expertise.** Moss Adams is the largest regional accounting and management consulting firm on the West Coast. We have been providing high-quality audit services to our clients for over 100 years. The firm employs over 2,000 staff, including approximately 258 partners located in 24 offices across California, Washington, Oregon, Arizona, New Mexico, Texas, and Kansas.

We view our role as internal auditors as being responsible for helping our clients to mitigate risks and improve performance. Moss Adams is uniquely qualified to provide these services, and we firmly believe we offer the kind of special dedication, continuity, and commitment that inspires mutual trust and confidence in projects of this type.

As set forth below in the *Exceptions to Specifications* section, Moss Adams's proposal is contingent upon negotiation of a mutually agreeable indemnification provision, and clarification of certain insurance requirements.

2. FIRM QUALIFICATIONS & EXPERIENCE

A. GENERAL INFORMATION

Please refer to the cover letter provided in this proposal for responses to the following items related to our company and general information.

1. Company name and address.
2. Letter of transmittal signed by an individual authorized to bind the respondent, stating that the respondent has read and will comply with all terms and conditions of the RFP.
3. General information about the primary contact who would be able to answer questions. Include name, title, telephone number and email address of the individual.

B. FIRM OVERVIEW

1. A brief history of your organization, full corporate name and affiliate organizations, a review of ownership, current location and territory attended to, number of employees, number of years of experience providing internal audit services and anticipated changes to the existing size and location of your business.

Moss Adams LLP provides accounting, tax, and consulting services to public and private middle-market enterprises in many different industries. Founded in 1913 and headquartered in Seattle, Moss Adams has 24 locations in Washington, Oregon, California, Arizona, New Mexico, Kansas, and Texas.

Our assurance services include audits, accounting, internal controls, business risk management, royalty compliance, and employee benefit plans. Our tax services include federal, state, and local tax planning and compliance; international tax planning and compliance; cost segregation; and research and development tax credits. Our consulting services focus on internal and performance audit services, as well as planning, policy and procedure development, lean operations, forensic accounting, technology assessments, and training.





We offer additional services such as investment banking and asset management by drawing on our two affiliate companies, Moss Adams Capital LLC and Moss Adams Wealth Advisors LLC.

Moss Adams is one of the 15 largest accounting and consulting firms in the United States. Our staff of more than 2,000 includes 258 partners. Moss Adams is also a founding member of Praxity, AISBL, a global alliance of independent accounting firms providing clients with local expertise in the major markets of North America, South America, Europe, and Asia.

Our Southern California practice is comprised of four locations in Irvine, Los Angeles, Woodland Hills, and San Diego. With our Southern California locations in close proximity to you, our professionals are highly accessible and available to meet with the City as may be required.

Local Government Practice

One of our most successful areas of industry focus is our National Government, Not-For-Profit, and Regulated Entities (GNR) Practice, which consists of a firm-wide team of over 200 professionals, the vast majority of whom specialize primarily, if not exclusively, in serving government and tax exempt organizations.

Our GNR team has served over 1,300 clients and provided over 2.5 million hours of service over the past 15 years. This team includes dedicated partners, directors, senior managers, and managers who are among the most experienced government service professionals in the Western United States. Our reputation for industry knowledge and quality service has been the primary reason for the success of this practice. A representative sample of local government clients for whom we have performed relevant services is provided below.

Representative Local Government Clients		
Benton County	City of Normandy Park	Housing Authority of Santa Clara County
Carson City	City of Phoenix	King County
City of Albuquerque	City of Portland	Lake Stevens Sewer District
City of Bellevue	City of Redmond	Lane County
City of Bellingham	City of Riverside	Los Alamos County
City of Bend	City of Roseville	Lyon County
City of Corvallis	City of San Diego	Maricopa County
City of Edmonds	City of San Jose	Marion County
City of Everett	City of Santa Fe	Multnomah County
City of Hillsboro	City of Santa Rosa	



Representative Local Government Clients		
City of Issaquah	City of Seattle	Pierce County
City of Kent	City of Shoreline	San Juan County
City of Las Cruces	City of Stockton	Santa Clara Valley Water District
City of Los Angeles	City of Tacoma	Santa Fe County
City of Lynnwood	City of Tucson	Snohomish County
City of Modesto	City of West Richland	Sonoma County
City of Mount Vernon	City/County of San Francisco	Tacoma Public Utilities
City of Nogales	Community Transit	Washington County

Internal Audit Services

Our firm’s internal auditing practice represents a core component of our service portfolio. Our seasoned staff members have significant experience performing audits and other assessments related to compliance, finance, fraud, governance, management, operations, policies and procedures, and technology. We serve clients in government, not-for-profit, and a variety of private sector industries. We have earned recognition and an outstanding reputation for our services based upon a solid track record and discriminating analysis.

Moss Adams has a long history of successful performance of internal audit engagements for local governments. Our internal auditing and consulting professionals come from government, private industry, and public accounting and work exclusively on internal audit and consulting engagements. Our leadership team is comprised of professionals with more than 25 years average professional experience. Because of the extensive auditing work Moss Adams conducts in the public sector, we have developed a series of proven practice components including:

- Investigative methodologies
- Trained auditors
- Engagement oversight and supervision
- Document management
- Fieldwork
- Reporting protocols
- Communications protocols/practices
- Risk assessment frameworks

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Moss Adams' internal audit professionals are thoroughly knowledgeable of local government policies, processes, and procedures. Our training requirements for professional auditing and consulting staff further ensure that our knowledge remains current.

Rather than performing engagements *for* our clients, we team *with* them to address what is needed to assess risks; improve economy, efficiency, and effectiveness; strengthen internal controls and compliance with laws and regulations; increase revenues; and prevent and detect fraud. Moss Adams considers a very important part of our engagements to be the knowledge and guidance we provide to our clients that will allow them to continue to improve their organizations. Our team will work closely and collaboratively with City management and staff to ensure a working relationship that will provide maximum benefit in meeting the stated goals and objectives for this engagement.

C. DISTINGUISHING SERVICES

2. The services your firm offers which may distinguish it from other firms.

Moss Adams prides itself on sharing innovations and best practices with our clients. Four innovative auditing concepts, approaches, and techniques, which have become common elements of our internal audit services, include:

- **Enterprise Risk/Opportunity Improvement Assessments** – When we conduct enterprise risk assessments, we do not limit our assessment to risks. Since risk assessments typically provide the basis for the areas of focus that define audit plans, we also assess opportunities for efficiency and effectiveness improvements. Utilizing this approach, we are able to gain greater insights, develop more comprehensive audit plans, and deliver greater value to our clients.
- **ROI-Based Reporting** – Moss Adams has been a vanguard for promoting internal audit reporting that addresses return on investment (ROI). Since many of the elected officials we serve want to understand the benefits of internal audit activities, we developed tracking and reporting processes for keeping elected and appointed officials apprised of the costs, potential savings, and actual savings associated with internal audit activities. This approach has proved to be extremely beneficial to our clients.
- **Fraud, Waste, and Abuse (FWA) Programs** – We have developed fraud, waste, and abuse programs for our clients. These programs encompass the development of policies and procedures, training at all levels of the organization, and coordination of and response to reports of fraud, waste, or abuse. Our nationally recognized fraud expert leads these initiatives.



- **Performance Metrics** – Another common element of our internal audit services has been the development of performance metrics to enhance accountability, transparency, and performance-based budgeting. Performance metrics engagements typically incorporate the identification of efficiency and effectiveness (outcome) measures, alignment with strategic goals, and development of performance dashboards for use by elected and appointed officials.

D. CLIENT PROFILES

3. A profile of the type of accounts and clients for which your firm presently provides internal auditing services.

Moss Adams offers extensive internal audit experience as represented in our featured projects below that reflect some of our recent, relevant internal audit, performance audit, internal controls, and risk assessment experience.

City of Stockton – Internal Audit Services
<p>In 2013, Moss Adams was retained as the City of Stockton’s internal auditor of record. We recently completed an enterprise risk assessment and internal controls review. The results of these two projects provided the basis for the identification of over two dozen projects, which were prioritized and defined to form a two-year audit plan. As part of the audit plan, Moss Adams is helping the City to implement a series of projects to improve performance and strengthen internal controls, both of which are essential components of the recovery program. We have also helped to educate the Audit Committee on its role, development of a Committee Charter, and provide training to Council, management, and staff.</p>

City of Modesto – Internal Audit Services
<p>Moss Adams was hired by the City of Modesto in early 2011 to perform a series of high profile business projects as the City moves to reengineer its processes. Hired as the City’s Internal Auditor, Moss Adams is providing performance auditing services regarding organizational reengineering and design. As part of the internal audit program, Moss Adams conducted an enterprise risk assessment of the City’s operations against best practices and developed a prioritized list of risks and departments/programs with potential for cost savings. Research into cost savings best practices in cities across the country supported these recommendations. To date, we have completed over a dozen projects for the City, which have provided recommendations for reducing risks, strengthening controls, and improving the economy, efficiency, and effectiveness of operations.</p>

Carson City – Internal Audit Services

Moss Adams has been serving as Carson City’s internal auditor of record since the beginning of 2012. We initiated our services by conducting a comprehensive risk assessment related to all departments. The risk assessment process provided the City an important set of benchmarks that guide both policy and process decisions, as well as investments. Based upon the results of the risk assessment, Moss Adams has been conducting audits of selected departments and programs based on potential risk and return on investment. Each audit is designed specifically to obtain sufficient, appropriate evidence to address audit objectives; identify opportunities for improving economy, efficiency, and effectiveness; and provide a return on investment. We have completed several projects thus far, including establishing a fraud, waste, and abuse program and developing departmental performance metrics to support performance-based budgeting.

City of Santa Monica – Internal Audit Services

Moss Adams was retained by the City of Santa Monica to serve as its internal auditor in 2014. We initiated our services by conducting an enterprise internal controls review focusing on key controls across the City. The internal controls review provided the City with an important baseline assessment of the internal controls environment across the City. In addition, we assisted the City establish an Audit Committee by advising on best practices and development of the Audit Committee Charter. We currently are executing the first year of the internal audit program based on the results of the internal controls review. In addition, we performed an operational assessment of City TV.

Pierce County – GAGAS Performance Audit

In 2010, the County conducted a performance audit planning assessment to identify audit topics that addressed a) cost savings and enhance revenues, b) service improvements and process improvements, and c) opportunities to improve performance measurement systems. In 2012, the County hired Moss Adams to conduct a GAGAS performance audit related to technology. The main questions addressed in this performance audit project included a) whether there are opportunities to improve efficiency and effectiveness in the County’s approach to IT with regard to governance, service delivery, and cost recovery, and b) what alternatives or best practices (including outsourcing) adopted by other entities could be employed to realize cost savings and efficiencies and improve service. Moss Adams was engaged to complete a review of the above issues and provide a report to the County Council, including detailed findings and recommendations. The focus on performance was tied directly to County goals, plans, KPIs, outcomes, monitoring, and reporting. Areas of audit focus were supported by a risk assessment that we conducted through an iterative process of fact finding activities such as interviews, document review, and walkthroughs.

King County – Risk Management Framework

Moss Adams was responsible for the development of an IT Risk Management Framework for the King County Office of Information Resource Management (OIRM). The project consisted of development of the framework, processes, and methodologies for risk management; evaluation of alternative electronic risk management systems; and development of training for technical and non-technical staff in the risk management process. Through interviews with the County security staff, Moss Adams gathered data on current project methodologies, developed an overarching framework, and led the County team in evaluating software solutions to implement the framework. The end result was a framework to help OIRM evaluate and mitigate risk, along with training materials and an evaluation of software systems.

Snohomish County – Governance Audit

Moss Adams completed a multi-phased performance audit for the Snohomish County Chief of Staff. The study focused on inter-departmental relations particular to the Department of Information Services. The audit focused on the Department's 1) cost recovery model, 2) service delivery and governance, and 3) communications strategies and processes. We performed all three phases in parallel for efficiency and timing purposes. The project was conducted according to GAGAS Yellow Book methodology, including the objectives, scope, and methodology of the audit, as well as audit results, including findings, conclusions, and recommendations.

Sound Transit – Establish Internal Audit Function and Conduct Performance Audits

In 2010, Moss Adams was hired to help establish the agency's internal audit function to support its multi-billion dollar regional public transportation system build-out and ongoing operation. The Agency is well established and charged with development and operation of a regional transportation system. As the Agency moved from capital infrastructure building towards operations, it became apparent that a permanent oversight function was needed. On this project, Moss Adams brought guidance, resources, and expertise to Sound Transit internal audit personnel to develop internal audit work programs, develop risk assessment methodology and frameworks, coach and train the newly hired Internal Audit Director, develop supporting policy/procedural documentation, and facilitate support for the function through work with key stakeholders, including the Executive Management Team.

We continue to work with Sound Transit to further define internal auditing, performance auditing, and consultancy policies and procedures based upon GAGAS and IIA standards, and conduct performance audits of various functions and programs. Our work for Sound Transit began in 1997, and we have been assisting the organization with internal audit and performance audit activities for the past 15 years.

E. AUDIT AND INTERNAL CONTROLS PHILOSOPHY

4. Provide your firm's audit and internal controls philosophy, in particular with respect to assets and controls of governmental organizations.

In our role as internal auditors, Moss Adams takes a holistic and strategic approach to assessing internal controls. We focus on assessing select key controls in areas deemed important to protecting the City's assets and resources and processing and reporting timely financial information. Specific areas of focus typically include, but are not limited to:

- Payroll
- Purchasing and accounts payable
- Monthly account reconciliation and closing
- Cash receipts and cash handling
- Revenues and billings
- Accounts receivables and write-offs
- Grant management and compliance
- IT general controls

The scope of our internal control reviews includes the following aspects:

- Identifying control objectives in specific areas and identifying controls that would satisfy each control objective
- Reviewing policies and procedures
- Examining relevant documentation in support of select key controls
- Performing control walk-throughs to observe the design of key controls and to understand workflow processes
- Obtaining an understanding of the characteristics of each relevant control activity (who performs it, how often it is designed to operate, whether it is designed to mitigate fraud, whether it is a manual or programmed (automated) control, and whether it is a preventive, detective, or corrective control)
- Assessing whether the controls in place would prevent or detect errors
- Providing recommendations on key controls that need to be implemented or changed



In support of internal controls reviews, we prepare a detailed matrix providing documentation of:

- Control objectives
- Control issues
- Corresponding recommendations
- Type of deficiency

3. TEAM QUALIFICATIONS & EXPERIENCE

A. PRIMARY STAFF

1. A biography of the primary staff that will be responsible for the work to be performed for the City.

We take great pride in the experienced staff we assign to our internal audit engagements. New clients, as well as our long-time clients, regularly compliment our staff on their industry knowledge and practical approach. Your internal audit service team will provide expertise relative to risk assessments, internal controls audits, fraud audits, performance audits, revenue enhancement audit, and compliance audits, as well as extensive experience working with local governments.

Mark Steranka, Managing Director, will serve as the Project Manager. He will be responsible for ensuring all services are completed on time, within budget, and to the satisfaction of the City. Mark offers over 28 years of consulting experience. He is the firm's Government Internal/Performance Audit National Practice Leader. Current internal audit clients include Carson City, City of Modesto, City of San Jose, City of Santa Monica, City of Santa Rosa, and City of Stockton.

Steve Fineberg, Senior Manager, will provide quality assurance for the Moss Adams team. Kim Koch, Senior Manager; Amy Sutherland, Senior Manager; Gina St. George, Senior Manager; Scilla Outcault, Manager; Matt Parsons, Manager; Colleen Rozillis, Manager; Dexter Jumamoy, Senior Consultant; and Catrina Liemola, Senior Consultant will comprise our internal audit team. With this team, we will be able to address any facet of internal audit services that the City may need.

Our proposed team is listed below, including team member, areas of expertise, and relevant clients. We are committed to retain the engagement team for the length of the relationship with the City. The breadth and depth of our proposed team ensures our ability to staff projects in a timely manner.

Our core team for the initial risk assessment and internal controls review will include Mark Steranka, Steve Fineberg, Kim Koch, Scilla Outcault, Coleen Rozillis, and Catrina Liemola, who have worked closely together to serve the internal audit clients listed in this proposal. Relevant qualifications of each team member are described in the resumes that are also provided below.

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Team Member	Project Role	Relevant Clients
Mark Steranka	Project Manager, Internal Auditor	Carson City, Modesto, San Jose, Santa Monica, Santa Rosa, Stockton
Steve Fineberg, CPA, CFE, CISA, CITP, CIA, CRMA	Quality Assurance	Carson City, Modesto, Santa Monica, Stockton
Kim Koch, CPA	Internal Controls, Risk Assessment	Carson City, Modesto, San Jose, Santa Monica, Santa Rosa, Stockton
Amy Sutherland, CPA	Internal Controls	King County, Menominee Nation, Navajo Nation, Santa Monica
Gina St. George, CPA, CFE	Fraud and Forensic Accounting	Carson City, Stockton, State of Oregon
Scilla Outcault	Internal Controls, Risk Assessment, Fraud	Carson City, Modesto, San Jose, Santa Monica, Santa Rosa, Stockton
Matt Parsons, CPA	Internal Controls	Los Angeles, Costa Mesa, Inglewood, San Marcos, Santa Ana
Colleen Rozillis	Risk Assessment, Performance Audits	Carson City, Issaquah, Modesto, San Jose, Santa Monica, Stockton
Dexter Jumamoy, CPA	Risk Assessment, Internal Controls	Businesses from a variety of industries
Catrina Liemola	Risk Assessment, Internal Controls, Fraud	Carson City, Modesto, Santa Rosa, Stockton



Mark Steranka

MANAGING DIRECTOR

Professional Experience

Mark is a Managing Director and serves as the firm's Government Internal/Performance Audit National Practice Leader. He serves as project manager for internal audit engagements for Carson City, Modesto, and Stockton. He offers over 28 years of consulting experience. He has worked extensively with local and state governments throughout the Western United States to evaluate risks; operational economy, efficiency, and effectiveness; internal controls; and compliance with requirements. Assignments he has managed have ranged in size from \$25,000 to \$1,000,000 and have addressed compliance, finance, fraud, governance, management, operations, organization, policies, procedures, and processes. Mark has performed assessments and other consulting services for clients such as:

- States: Alaska, California, Idaho, Oregon, and Washington
- Counties: Carson City (integrated City/County), King County, and San Juan County
- Cities: Anacortes, Burien, Carson City, Edmonds, Lynnwood, Issaquah, Modesto, Portland, San Jose, Santa Monica, Santa Rosa, Stockton, and West Richland
- Special Purpose Districts: Community Transit, Lake Stevens Sewer District, North Perry Water District, Richland School District; Santa Clara Valley Water District, Snohomish County PUD No. 1, and Tacoma Department of Public Utilities

Mark is experienced reporting to boards, commissions, committees, councils, and executive management and working with citizen committees and stakeholder groups. He is also well-versed in designing and facilitating meetings, focus groups, and customer surveys.

Education

- Executive Management Program, University of Washington
- Bachelor of Science, Mechanical Engineering, University of Notre Dame
- Certified, GAGAS Performance Audits



Steve Fineberg, CPA, CFE, CISA, CITP, CIA, CRMA

SENIOR MANAGER

Professional Experience

Steve is a Senior Manager and offers more than 10 years of relevant experience in risk management, internal audit, and information technology control reviews in a variety of industries. He has substantial risk management experience leading projects end-to-end across multiple industries. Steve leverages this knowledge to help organizations better understand information needs, business information strategies, and business governance strategies ranging from general information flows and processes to enterprise risk management. Steve's experience is primarily with clients in the government and not-for-profit, construction, and life sciences industries. He has performed similar work for governmental clients such as the City of Modesto, City of Stockton, City and County of San Francisco, San Jose Unified School District, and Long Beach Community College District.

Professional Certifications and Affiliations

- Certified Public Accountant (CPA)
- Certified Fraud Examiner (CFE)
- Certified Information Systems Auditor (CISA)
- Certified Information Technology Professional (CITP)
- Certified Internal Auditor (CIA)
- Certification in Risk Management Assurance (CRMA)

Education

- Bachelor of Business Administration, Accounting, Texas A&M University



Kim Koch, CPA

SENIOR MANAGER

Professional Experience

Kim is a Senior Manager and has practiced public accounting since 2001. She has over ten years of experience in conducting internal controls and other audits in accordance with Government Auditing Standards. Kim is one of the five people selected throughout the Firm to perform the Moss Adams' technical review process for compliance audits and she annually helps develop the Firm's tools for compliance audits. She oversees audits and consulting engagements of numerous government and not-for-profit organizations, and she specializes in internal controls. She has served government entities, charities, foundations, higher education, and research organizations.

Kim's experience includes supervision of the engagement team, developing the audit plan, understanding and testing internal controls, researching technical areas, and identifying findings and areas for improvement. She regularly presents continuing professional education sessions internally and externally on topics such as compliance auditing, GAGAS, and various accounting topics. Examples of current or recent audit clients include the California Institute for Regenerative Medicine, Carson City, City of Modesto, City of San Jose, City of Santa Monica, City of Santa Rosa, City of Stockton, and Santa Clara Valley Water District.

Professional Certifications and Affiliations

- Certified Public Accountant (CPA)
- Member, American Institute of Certified Public Accountants (AICPA)
- Member, Washington Society of Certified Public Accountants (WSCP)

Education

- Bachelor of Arts, Business Administration, Concentration in Accounting, University of Washington (Cum Laude)



Amy Sutherland, CPA

SENIOR MANAGER

Professional Experience

Amy is a Senior Manager and has practiced in public accounting and private industry since 1999. She specializes in accounting and business advisory services for government and tribal entities. Amy's experience includes planning and conducting financial statement audits and federal compliance audits for government and tribal entities, as well as enterprise funds. Additionally, Amy provides business consulting services to tribal governments and enterprises, and government agencies, including finance department reviews, internal control reviews, and performance audits.

Amy is a member of the Moss Adams Government Services Group. She is also actively involved in the not-for-profit community as a board and finance committee member of Childhaven, and is actively involved in the profession currently serving as chair of the Content Committee and member of the Board of Examiners for the AICPA.

Professional Certifications and Affiliations

- Certified Public Accountant (CPA)
- Member and Content Committee Chair, American Institute of Certified Public Accountants (AICPA)
- Member, Board of Examiners, AICPA
- Member, Washington Society of Certified Public Accountants (WSCPAA)
- Former Chair and Member, Audit and Attestation Subcommittee, American Institute of Certified Public Accountants

Education

- Bachelor of Science, Accounting and Business Administration, University of Puget Sound



Gina St. George, CPA, CFE

SENIOR MANAGER

Professional Experience

Gina is a Senior Manager with over 20 years of combined public accounting and hospitality and gaming industry experience. Gina's experience includes auditing and financial reporting, compliance with state and federal regulations, forensic accounting and developing and implementing operational and accounting internal controls. Her services include forensic and accounting assistance, control system improvement, and operational assessment projects. She works regularly with government clients on internal control analysis and improvement. Gina's extensive fraud investigation experience includes fraudulent asset transfers, contract compliance, and detecting schemes related to disbursements (check and credit card schemes).

Professional Certifications and Affiliations

- Certified Fraud Examiner (CFE)
- Certified Public Accountant (CPA)
- Member, American Institute of Certified Public Accountants (AICPA)
- Member, Institute of Internal Auditors – Gaming Audit Group (IIA)
- Member, Association of Certified Fraud Examiners (ACFE)
- Member, Hospitality Financial and Technical Professionals (HFTP)

Education

- Bachelor of Science, Accounting, Central Washington University



Scilla Outcault

MANAGER

Professional Experience

Scilla is a Manager and she focuses her practice on performance review and internal audit with an emphasis on internal controls and mitigating fraud risks. When conducting performance reviews, Scilla is committed to accurately evaluating efficiency and effectiveness as well as providing clients with valuable recommendations. She has performed numerous internal audits in which she has evaluated the design and operating effectiveness of internal controls over a variety of business processes including revenue and cash handling, accounts payable, purchasing, and grants management.

Scilla has over ten years of experience performing complex analyses and developing strategic solutions for clients in the government and not-for-profit space. In addition to performance auditing, Scilla also has experience with forensic accounting, process improvement, performance measure development, strategic planning, policy and procedure development and implementation, and project management. Prior to joining Moss Adams, Scilla held roles as an audit evaluator in the California State Auditor's Office and business analysis consultant for the California Chamber of Commerce.

Professional Certifications and Affiliations

- Member, Association of Certified Fraud Examiners (ACFE)
- Member, Institute of Internal Auditors (IIA)

Education

- Master of Business Administration, Entrepreneurship and Organizational Behavior, University of California, Davis
- Bachelor of Arts, International Relations and Spanish, Tufts University

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Matt Parsons, CPA

MANAGER

Professional Experience

Matt is a Manager and his experience encompasses financial audits of governmental agencies, compliance audits of grants, not-for-profit organization audits, and single audits. Each of the audits included a review of the entity's internal controls, financial management system, and preparation of audited financial statements. He keeps up with Yellow Book continuing professional education, is up to date on fraud training, and has attended CPE seminars related to the most recent GASB pronouncements.

Matt has performed audits for dozens of government clients in the state of California, such as the County of Los Angeles; the Cities of Riverside, Beverly Hills, Carson, Costa Mesa, Commerce, Del Mar, Escondido, Highland, Indio, Inglewood, Los Angeles, Moreno Valley, National City, Palm Springs, Rancho Santa Margarita, San Gabriel, San Marcos, Santa Ana, Seal Beach, Villa Park, and West Covina; the Housing Authority of the City and County of Fresno; Imperial Valley, and Ventura County; the Orange County Transportation Authority; the Orange County Fire Authority; Eastern Municipal Valley Water District; and Rancho California Water District. Typical project durations are several weeks to several months on a multi-year basis.

Professional Certifications and Affiliations

- Certified Public Accountant (CPA)
- Member, American Institute of Certified Public Accountants (AICPA)
- Member, California Society of Certified Public Accountants (CalCPA)
- Member, California Society of Municipal Finance Officers (CSMFO)

Education

- Bachelor of Arts, University of California, Los Angeles

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Colleen Rozillis

MANAGER

Professional Experience

Colleen is a Manager and specializes in operations, performance, and revenue enhancement audits. She has over eight years of experience advising local and state governments to improve operations and efficiency by assessing organizational and program effectiveness and developing and refining performance and key performance indicators (KPIs). She works collaboratively with clients to understand their goals and objectives; develop policies, processes, and tools; define organizational and programmatic changes to better equip and position them to achieve their goals and objectives; and create KPIs and dashboards to track and report progress. Her areas of expertise include:

- Performance measurement and assessment
- Best practices benchmarking
- Revenue enhancement
- Decision-maker strategic communications and reporting

Colleen recently completed a full study of internal audit policies and procedures for Sound Transit, Washington State's Central Puget Sound Regional Transit Authority. She has worked with a wide range of state and local agencies conducting strategic planning, policy analysis, and performance measurement engagements. Her government experience includes planning, policy, and financial analysis in Alaska, Arizona, California, Colorado, Texas, and Washington. Current internal audit clients include Carson City, City of Modesto, and City of Stockton.

Education

- Master of Science, Public Policy and Management, Heinz College at Carnegie Mellon University
- Bachelor of Arts, English and Political Science, University of Michigan



Dexter Jumamoy, CPA

SENIOR CONSULTANT

Professional Experience

Dexter is a Senior Consultant in Moss Adams' Business Risk Management and Control Solutions Group where he specializes in performing internal audit and SOX compliance efforts as well as LEAN projects. He has over 15 years of auditing and accounting experience, including several years performing internal audits and financial and process analysis in various industries.

Prior to joining Moss Adams, Dexter served as a Manager of Internal Audit for a Fortune 500 company where he was responsible for conducting internal audit and the company's yearly SOX compliance efforts. Prior to that, he was the head of the accounts payable department for a national medical supplies distribution company.

Professional Certifications and Affiliations

- Certified Public Accountant (CPA)
- Member, American Institute of Certified Public Accountants (AICPA)
- Member, Institute of Internal Auditors (IIA)

Education

- Bachelor of Science, Business Administration: Accountancy, California State University, Long Beach



Catrina Liemola

SENIOR CONSULTANT

Professional Experience

Catrina is a Senior Consultant with over six years of professional experience, including government performance, compliance, and internal control audit experience. Catrina is skilled in audit plan preparation, conducting risk assessments, conducting performance audits, evaluating internal controls, performing fraud analysis and assessments, and preparing and presenting audit findings and recommendations. She maintains an in-depth knowledge of Generally Accepted Government Auditing Standards (GAGAS), Generally Accepted Auditing Standards (GAAS), and general accounting principles, and works collaboratively with clients to identify opportunities to improve organizational and operational efficiency and effectiveness.

Prior to joining Moss Adams, Catrina was a financial and performance evaluator for the State of California's Department of Finance. Her extensive audit experience is complemented by her strong background in finance and accounting, giving her the unique ability to identify cost-savings opportunities for government and not-for-profit clients.

Professional Certifications and Affiliations

- Certified Internal Auditor (CIA) (expected completion in August 2016)

Education

- Master of Science, Accountancy, California State University, Sacramento (expected completion in December 2017)
- Bachelor of Science, Business Administration/Finance, California State University, Sacramento

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B. FIRM PRINCIPALS

2. A brief biography of principals of the Firm.

Moss Adams is organized as a limited liability partnership with approximately 258 active partners. Firm business is conducted under the leadership of our chairman, Chris Schmidt; our president, Dick Fohn; an elected executive committee; regional and office managing partners; and many industry chairpersons.

Chris Schmidt

Chris is serving a four-year term as chairman and chief executive officer of Moss Adams LLP beginning April 1, 2013. Prior to his current role, Chris joined the Orange County, California office of Moss Adams in 1986. In 1991 he was admitted to the partnership, and in 1997 he became the managing partner of the Orange County practice office. In 2004, he moved to the firm's National office in Seattle, Washington and assumed the role of president and chief operating officer for a five-year term. He was reappointed to a second term in 2009.

As chairman and chief executive officer, Chris is responsible for establishing and promoting the firm's strategic plan, including maintaining firm-wide commitment to the highest level of professional practice. Chris is committed to the accounting profession and a number of charitable organizations. He is currently a member of the American Institute of Certified Public Accountants and has served on the AICPA Council as well as the Council's Nominations Committee.

Dick Fohn

Dick has been in public accounting since 1983. In addition to his CPA certification, Dick is a Personal Financial Specialist. His practice focus has been on tax, ownership succession, and estate planning. From 1985 to 1992 Dick helped grow the firm's Bellingham office from nine to over ninety employees, and in 1992 he became a partner, eventually becoming the managing partner of the Bellingham office. In 2011 Dick transitioned to the firm's National Office to become director of tax. Effective in April, 2013, Dick was appointed president and COO of Moss Adams. Dick is also a board member of Moss Adams Wealth Advisors LLC, the firm's RIA affiliate.

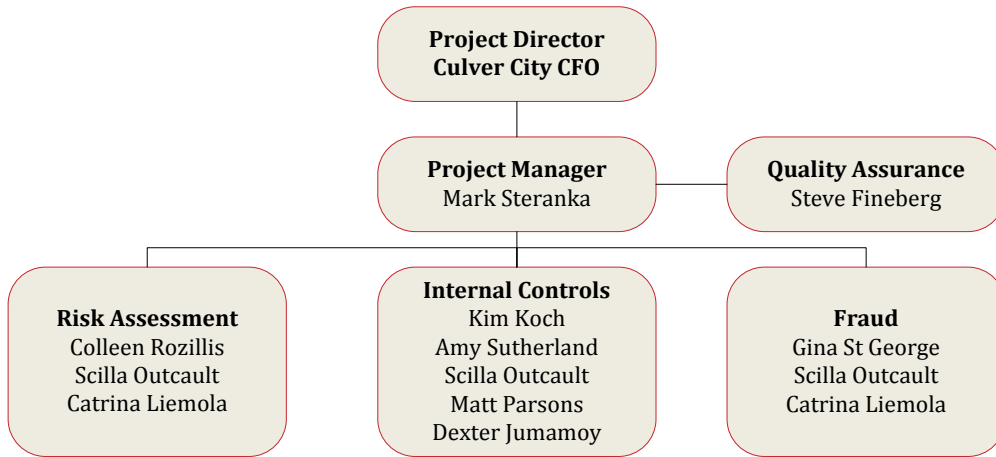
C. TEAM ORGANIZATION

3. An organizational chart for the individuals assigned to our account.

Moss Adams has assembled an exceptional team of experienced individuals for this important engagement. Together, team members offer extensive experience in each service area covered by the RFP, as well as additional services that may be required by the City in the future.

We have organized our team in alignment with the areas of focus identified in the RFP. It is important to note that most of our proposed team members possess experience in multiple areas and are interchangeable. Our proposed team organization is provided below.

Project Organization



4. SCOPE OF SERVICES

1. Describe your firm's experience in providing internal auditing services to local governments as well as other organizations. Describe the unique qualifications of your firm to provide internal auditing services to the City.

Moss Adams provides comprehensive internal audit services that encompass performing internal audit functions (City of San Jose and City of Santa Rosa), supporting internal audit teams (City of Portland and Pierce County), and serving as the designated auditor of record (Carson City, City of Modesto, City of Santa Monica, and City of Stockton). We are experienced at performing all facets of internal audit functions, including:

- Establishing governance structure and audit framework (e.g., Audit Committee charter, Audit Committee and Council training, reporting format and frequency, etc.)
- Performing enterprise risk and opportunity improvement assessments
- Developing multi-year internal audit programs
- Conducting compliance audits and reviews, fraud audits and forensic accounting, financial audits and reviews, internal control audits and reviews, revenue enhancement audits and reviews, and operational and performance audits and reviews
- Tracking, validating, and reporting on the resolution of audit findings
- Communicating audit results to City Managers, City Councils, Audit Committees, and senior management

We view our role as internal auditors as being responsible for helping our clients to mitigate risks and improve performance. These impacts can be achieved in a number of ways. Examples include:

- **Enterprise Risk Assessments** – As the internal auditor for Carson City, Nevada, Moss Adams conducted an enterprise risk assessment that provided comprehensive information on risks the City faces. However, our standard risk assessment process is not limited to the traditional identification of risks and levels (e.g., high, medium, or low). Instead, our enterprise risk assessments address risk likelihood, impact, trajectory, and level (i.e., low, low to medium, medium, medium to high, and high). In addition, we identify risk mitigation actions, as well as residual risks that would be expected to exist after mitigating actions have been taken.



- **Enterprise Internal Controls Review** – As the internal auditor for the City of Santa Monica, California, Moss Adams performed a citywide internal controls review. Specific areas we reviewed included:
 - Payroll
 - Purchasing and accounts payable
 - Monthly account reconciliation and closing
 - Cash receipts and cash handling
 - Revenues and billings
 - Accounts receivables and write-offs
 - Grant management and compliance
 - IT general controls
- **Focused Internal Controls Reviews** – As the internal auditor for the City of Stockton, California, Moss Adams has performed series of internal controls reviews based on an initial enterprise risk assessment and internal controls review. Specific areas we reviewed included:
 - Accounts payable and purchasing
 - Grants management
 - Information technology controls
 - Monthly reconciliation and close controls
 - Payroll controls
 - Revenue and cash collection controls

The internal controls review served as an essential component of the City’s plan for recovery from bankruptcy and formed the basis for a multi-year program to strengthen internal controls, including training for the City Council, senior management, and staff. In addition, we are executing a comprehensive internal controls testing program, and we have provided internal controls training to the Council and senior management.

- **Operations** – As the internal auditor for the City of Modesto, California, Moss Adams has performed a series of operational performance reviews. Initial areas of focus have included citywide organization, administrative and analytical resources, transportation, and water and wastewater. The detailed findings and recommendations provided a roadmap for reducing risks, improving performance efficiency and effectiveness, reducing costs, and streamlining organizational structure.

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- **Fraud** – For Carson City, Nevada, we developed a fraud, waste, and abuse program; established a fraud hotline; investigated reports via the fraud hotline; and provided training to Audit Committee members, senior management, and staff.
 - **Reporting** – For the Santa Clara Valley Water District, located in San Jose, California, Moss Adams conducted a performance audit of the District’s Clean, Safe Creeks and Natural Flood Protection Program. The performance audit examined the extent to which the District complied with provisions of the 15-year levy funding the Program (expenditure and collection procedures) and assessed the District’s performance toward meeting the Program’s outcomes and Key Performance Indicators (KPIs). The appropriateness of KPIs and reporting, opportunities for improvement, and performance gaps were a focus of findings and recommendations. The performance audit was conducted in accordance with GAGAS.
 - **Bottom Line** – As the internal auditor for the City of Modesto, California, Moss Adams has provided a range of services. Like many cities, Modesto is still recovering from the economic downturn and impacts to its organization of resource reductions. Moss Adams has helped to reorganize the City and identify cost savings opportunities in the process.
2. Describe your firm’s experience in auditing Electronic Data Processing (EDP) systems, to include, but not limited to, accounting software systems, PC based software applications, local area networks, etc.

Moss Adams offers a robust information technology consulting group that specializes in a host of technology assessments and audits, both as standalone technology projects and in support of audits. We have worked with virtually every financial system utilized by local governments, including Tyler Technologies’ Munis system, as well as numerous supporting systems for enterprise billing and maintenance functions. Areas of specialization include financial audits, Sarbanes-Oxley, SSAE16, HIPAA, ISO 27002/27001/17799, PCI DSS, Microsoft data privacy attestation, internal controls review, and WebTrust® and SysTrust®.

We are certified in multiple areas to ensure we offer the expertise needed to address mission-critical systems. Examples of our relevant certifications include:

- Certified Public Accountant
- Certified Information Systems Auditor
- Certified Information Security Manager
- Certified Information Systems Security Professional
- Certified in the Governance of Enterprise IT
- Microsoft Certified Systems Engineer
- Microsoft Certified Systems Administrator

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- Information Technology Infrastructure Library (ITIL)
 - Certified Internal Auditor
 - Comp TIA Security+ and Network+
 - Project Management Professional
 - System Security Certified Practitioner
 - JD Edwards Certification
 - Oracle Certification
3. Describe how you will ensure that the audit team assigned will have the necessary knowledge and experience in City government internal controls.

We provide internal audit services in accordance with industry and firm standards. Internal controls are in place to ensure high quality, defensible products for all internal audit engagements, which includes ensuring the right personnel are assigned to each engagement. Some of the controls include:

- **Independence** – Moss Adams accepts engagements carefully and assigns teams and staff with equal care to ensure that no external, personal, or organizational impairments exist to our work.
- **Professional Judgment** – Moss Adams uses careful planning to determine the type of assignment to be performed and the standards that apply to the work. This includes defining the scope of work, selecting a specific methodology, determining the type and amount of evidence to be gathered, and choosing tests and procedures. Professional judgment is also demonstrated by an attitude of professional skepticism, which includes a questioning mind and a critical assessment of evidence. Our standards of professional judgment demonstrate experience and integrity in the performance of audit engagements.
- **Competence** – The proposed staff for our engagements are well-qualified. Moss Adams has a rigorous continuing professional education program and ensures that all staff who conduct internal audits meets the GAO-specified requirements for education. Our government industry group sponsors an annual education forum, which includes training in relevant areas such as the Generally Accepted Government Audit Standards (GAGAS) standards, Governmental Accounting Standards Board (GASB) and other public finance standards, Institute for Internal Auditors (IIA) standards, American Association of Certified Public Accountants (AICPA) consultancy standards, and firm auditing practices. In addition to rigorous continuing professional education (CPE), our proposed staff members work in a supervised environment, which fosters the development of experience and professionalism.

- **Quality Control and Assurance** – Moss Adams has a rigorous process of internal quality control and supervision. All audit engagements are assigned to a qualified engagement manager. All deliverables, including work papers, findings, recommendations, and final reports are processed through a critical concurring review process. In addition to these regular quality control and assurance controls, Moss Adams participates in a regular external peer review process.
4. The proposal should include a pricing structure (estimated hours and blended hourly rate) for the entity-wide review of internal control and the risk assessment work to be performed. Describe how you would approach risk assessment at the City and how you would develop an internal audit schedule for period review of internal controls in City departments based upon the risk assessment.

Moss Adams’ approach to conducting risk assessments and internal control audits embraces current global standards including the Enterprise Risk Management (ERM) methodology established by Committee on Sponsoring Organizations of the Treadway Commission (COSO). Quite literally, Moss Adams worked directly with COSO to develop ERM processes. We also subscribe to federal government protocols, defined through the GAO, which are consistent with COSO standards. The COSO protocol embraces eight ERM activities tied to five overarching goals and functions addressing all aspects of ongoing enterprise operations (illustrated on the right).



Additionally, to support the City’s risk assessment process, we will also recognize other important standards related to information and control including COBIT, ITIL, and ISO. It should be fully recognized that the City is seeking assistance with one aspect of ERM: the risk assessment. To do this properly, the risk assessment must be aligned with other components of City management including strategy, policy and goal setting, risk response, risk culture, and monitoring and reporting outcomes in a transparent manner.

According to the GAO, a risk assessment should address key elements of the potential risks that the City may face so that countermeasures can be selected and implemented to prevent or mitigate negative events. To give the City some idea of the risk assessment scope, the City should expect the following types of financial operations to be assessed in this process:

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- Financial capture and reporting
- Operational/transaction
- Policies and procedures
- Management practices
- Liquidity
- Organizational strategy
- Legal/regulatory compliance
- Reputation
- Vendor/sub-contracting
- Fraud
- Technology
- Service delivery

The following approach provides a general framework related to how Moss Adams develops a risk assessment and internal control audit work program. This approach will be tailored around each of the requested audit services identified in the City's RFP. Our approach to this engagement will be embodied in a comprehensive auditing plan. In providing these services, you can expect delivery of the following:

- Comprehensive risk assessment and internal control audit plan that considers your objectives, risks, and controls necessary to mitigate risk.
- Fraud and forensic audit capabilities that will help you implement processes and internal controls needed to prevent issues, as well as detect and address improprieties if needed.
- Use of computer aided auditing techniques (CAAT) tools that allow us to review all source data and information repositories to identify risks, anomalies, and controls failures, and to aid in identification of opportunities to improve segregation of duties, system security access, and overall internal control structure.
- Documentation and assessment of processes and internal controls designed to improve efficiency of internal controls operation and effectiveness of internal controls in achieving City objectives.
- Collaborative service delivery that involves your personnel in every step of the internal audit processes.
- Balanced audit reporting and ready availability to meet with City management to discuss internal audit work.

The most important factor in achieving audit success is effective planning. Models of City-specific audit approaches will provide useful information as audit programs are tailored to meet the specific needs of the City. We will enhance the productivity and efficiency of internal control audits by ensuring that audit activities are focused on significant and probable risks to achievement of important and urgent business objectives. We will work together with you to establish an assessment plan that addresses your needs.

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Because business processes often differ significantly, thoughtful and concerted preparation is needed to achieve desired audit results by:

- Reviewing previous risk assessments, if available
- Interviewing department leaders
- Reviewing emerging regulations applicable to the process
- Reviewing relevant policies, procedures, and key correspondence
- Reviewing financial reports and plans
- Reviewing prior internal and external audit reports
- Analyzing departmental structure and turnover
- Identifying relevant IT systems and applications
- Evaluating controls design
- Evaluating and verifying results
- Developing recommendations
- Reporting to management

A detailed description of our four-phase risk assessment and internal control review approach is provided below.

Phase 1 – Start Up and Management

1.1 Conduct Project Kick-Off and Perform Ongoing Project Management – To ensure that we meet management’s objectives for the project, we will convene relevant stakeholders from the City and the Moss Adams team to confirm the scope of the project as well as the risk areas of most concern to management. In addition, administrative matters related to communications protocols, status reporting, deliverable formats, work space, interview lists, and file sharing will also be discussed, confirmed, and/or established. The project plan will document the tasks, assignments, schedules, and deliverables.

1.2 Develop a Risk Assessment Framework – An overall risk assessment framework is fundamental to setting the stage to properly evaluate risk. This task will establish a mechanism from which risk may be assessed in a straight-forward manner. Typical components of a framework include City process/function characterizations, objectives, control information, likelihood, impact, and risk determination. Typically, we develop the framework in a matrix format, possibly supported by a heat chart.

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The framework will provide a template for capturing relevant information related to the controls that have been established or are planned for implementation. As part of this effort, we will rank City assets and projects and associated risk levels.

1.3 Perform Project Management – We will conduct rigorous project management activities for the duration of the engagement. These activities will include providing guidance to the consulting team; coordinating with the City’s Project Director; working issues and solving problems; monitoring progress against the approved work plan; and developing, submitting, and discussing progress with the City’s Project Director. Regular progress reports will be provided to the City’s Project Director.

1.4 Provide Quality Assurance – We believe it is important to recognize the need for quality by ensuring excellent client service and engagement oversight. A senior manager or partner will review all deliverables before submittal to the City.

Phase 2 – Fact Finding

2.1 Gather Background Information – We will work with you to identify people to interview and key documents to review. We will review available City documentation, including relevant policies and procedures, as well as other control documentation. Some of the documents we will likely request include:

- Administration and financial policies, procedures, and practices
- SOP manuals
- Organization charts
- Contracts and litigation
- Internal control listings
- Information security policies and procedures
- Asset inventories
- Capital projects listing
- Maintenance schedules
- Strategic business and financial plans
- Past audit findings
- Previous risk assessments
- Financial statements and budgets

The objectives of this review include gaining an understanding of the environment and gaining insights in preparation for interviews.

2.2 Perform Process Walkthroughs – As part of the process of gaining a comprehensive understanding of the City’s environment, we will review significant and relevant processes operating throughout the City that have been deemed significant with respect to controlling financial risk. The walkthroughs will be high level and will include administrative, operations, and support roles involved in conducting City financial operations.

2.3 Conduct Interviews – One-on-one interviews will be conducted with key stakeholders from the City, including City Council, Departmental Directors, and Legal Counsel as well as lead staff involved with conducting risk assessments and establishing and maintaining the design and operating effectiveness of relevant processes and internal controls. We will interview key personnel to assess areas of greatest risk and concern. Interviews and observations will be conducted to gain an understanding of the current controls, processes, vulnerabilities, threats, likelihoods, and impacts. We will discuss management objectives and risks that may impact the achievement of those objectives. In order to gain the greatest value from interviews towards a preliminary audit plan, interviews will also address opportunities for performance improvement.

2.4 Conduct Survey – In addition to interviews, our fact-finding process will include a survey process via use of a web-based tool (e.g., Survey Monkey) to gain an overall sense of the internal controls and risk management environment. This survey will include open-ended and specific questions to gain the input of key stakeholders. Similar to interviews, the survey will address three primary areas of focus, including risks, internal controls, and performance improvement opportunities.

Phase 3 – Analysis

3.1 Perform Risk Analysis – Once information related to City business practices, processes, and controls has been gathered through the documentation review, walkthroughs, interviews, and survey, we will be able to populate the framework with the information gathered and make a determination regarding the likelihood and impact of the potential for specific negative events occurring. This work will align risk to specific processes and also potential risk events. At this point, we will determine the risk levels, along with an associated scale, and supported with a description of appropriate actions for each level of risk. During this stage, we will analyze and evaluate the quality of the processes, routines, and controls related to the City's RFP scope. The results of this stage will include an assessment of the overall City business environment and associated risks, highlighting high risk areas, recommendations, and proposed risk mitigation.

3.2 Assess Internal Controls – Based on the insights gained through fact finding, we will review key controls. Specifically, we propose to review the following key controls:

- Payroll
- Purchasing and accounts payable
- Monthly account reconciliation and closing
- Cash receipts and cash handling
- Revenues and billings

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- Budgeting
- Accounts receivables and write-offs
- Grant management and compliance
- IT general controls

We will work with the City to finalize the key controls to be reviewed. The scope of the internal controls review will include the following aspects:

- Identifying control objectives in specific areas and identifying controls that would satisfy each control objective
- Reviewing policies and procedures
- Examining relevant documentation in support of select key controls
- Performing control walk-throughs to observe the design of key controls and understand workflow processes
- Determining the characteristics of each relevant control activity (who performs it, how often it is designed to operate, whether it is designed to mitigate fraud, whether it is manual or automated, and whether it is preventive, detective, or corrective)
- Assessing whether the controls in place would prevent or detect errors
- Identifying key controls that need to be implemented or changed
- Evaluating monitoring activities currently in place

Once the key controls have been sufficiently reviewed, we will be able to populate an internal controls framework with the following information: control objectives, control issues, recommendations, likelihood of occurrence, and impact of occurrence.

3.3 Document Results – We will compile the results of the analysis into financial operations risk assessment and internal controls reports that will position City management, elected officials, and other stakeholders to understand findings and allocate appropriate resources to mitigate risk and/or remediate control gaps. Our risk assessment results will address the strengths, weaknesses, challenges, and key areas of risk. Our internal controls review results will build upon the internal control evaluations performed by the City’s independent CPA firm through annual financial statement audits, as well as any other relevant audits, and any identified material weaknesses and reportable conditions. Results will address specific deficiencies in the internal control framework and associated possible risk level.

3.4 Risk Mitigation – Based on the results of the analysis, risk mitigation should occur that will involve prioritizing, evaluating, and implementing appropriate actions aimed at reducing risk and strengthening controls. Moss Adams will assist City management by defining benefits, costs, and resource requirements associated with each action. City management will be responsible for mitigation decisions, but we will provide input and recommendations to facilitate this process. There are multiple options management will choose from to address the desired risk levels including:

- Accepting the risk
- Avoiding the risk through mitigation
- Limiting the risk by focusing on minimizing impact
- Managing risk through the establishment and maintenance of internal controls
- Transferring risk through identification and reliance upon compensating processes and controls

We will provide recommendations for implementation of new processes and overarching internal controls or remediation of existing practices to address the risks highlighted in the analysis. Our risk mitigation work will feed directly into the development of the preliminary audit plan.

3.5 Develop Preliminary Audit Plan – Once the full component of business practices and processes has been evaluated, an audit plan will be developed that will equip the City with a roadmap to follow related to potential future audits to be conducted. Such audits will be defined based upon City needs and through an assessment of related risks. The potential audit definitions will be prioritized by the City sponsors to determine what performance audits will be pursued alongside the timing. In addition to the audit definitions, other performance audit program methodologies will be discussed (based upon industry standards, and relevant processes and templates defined).

Phase 4 – Reporting

4.1 Submit Draft Reports – To ensure that deliverables meet the City’s expectations, we will prepare and present to City management a draft version of the risk assessment and internal control audit reports and preliminary audit plan. These deliverables will be presented in an effort to not only validate facts, but also test the practicality of recommendations.

4.2 Revise Draft Reports – Based on feedback from City management, we will revise the draft reports as necessary to address any validation discrepancies or practicality issues.

4.3 Submit and Present Final Reports – We will prepare and submit our final reports in electronic and bound hard copy formats. We will present the final report to the City Council.



5. Based upon internal audit work performed by your firm for entities similar to the City provide (if possible) an estimate of the hours and yearly cost to review internal controls in City departments such that each department could be reviewed once every 5 years as determined through the risk assessment process.

The internal audit programs that we execute on behalf of our clients are designed to accomplish multiple projects per year based on priorities established with the client. Annual audit programs typically range from approximately \$50,000 to \$200,000 per year. As such, projects are scoped to achieve meaningful progress each year. Project cost and hour ranges are provided below based on our experience performing small, medium, and large projects. Annual programs primarily consist of a combination of small and medium projects (e.g., risk assessments, internal control reviews, fraud investigations, and program, division, or department audits). This enables each department or function to be addressed every few to several years.

Project Size	Project Costs	Project Hours
Small Projects	\$15,000 to \$25,000	75 to 125
Medium Projects	\$25,000 to \$50,000	125 to 250
Large Projects	\$50,000 to \$75,000	250 to 375

6. Provide a cost estimate for assisting the City to establish a tip line (fraud hotline) where employees could anonymously report areas of concern to them.

Moss Adams is experienced at establishing and managing a fraud hotline for city governments. As part of these services we have researched hotline vendors and obtained quotes; developed fraud, waste, and abuse (FWA) policies and procedures; provided FWA training at Council, senior management, and staff levels; and responded to calls to the hotline and other inquiries submitted to the internal auditor.

The cost of these programs has been tailored to the budgets of our clients, as well as the amount of hotline activity. There are three primary costs to establishing a fraud hotline. They include 1) hotline set up and annual subscription, 2) FWA policy development and training, and 3) ongoing response to hotline calls. Hotline setup and annual subscription costs from hotline vendors typically range from \$2,500 to \$10,000; policy development and training costs are typically handled as a small project and range from \$5,000 to \$25,000, depending on the scope of services; and annual costs associated with the response to hotline calls are completely dependent on the number and nature of hotline calls, but typically range from \$2,500 to \$10,000 barring any substantial fraud activity.



7. Describe your firm’s professional and technical resources which are available to support the internal audit work.

Moss Adams is a firm of over 2,000 employees, 24 offices (including 10 in California), and 200 professionals specializing in working with government and tax exempt organizations. Our professionals across the firm collaborate on a regular basis to serve our clients and offer nearly every expertise needed to meet the internal auditing needs of our clients. For instance, typically 10 to 15 government specialists from across the firm work with our internal audit clients. As such, our clients truly gain the benefit of our vast resources because they are able to tap them to meet their specific needs. This approach is reflected in our proposed team for this project. However, we have many other professionals within our firm not mentioned in this proposal that we can tap as needed to meet the City’s needs, and we do so for our clients on a regular basis. This ensures that you get the right personnel for each project and gain access to the best resources Moss Adams has to offer.

5. REPORTING

1. Detail proposed meeting availability for phone calls and face to face meetings. Presence at City Council meetings may be needed from time to time.

For each internal audit client, we establish a standing status call and meeting schedule that is reflective and responsive to each client's environment and needs. Status calls are typically scheduled on a bi-weekly (every two weeks) basis. These calls are used to discuss current activities and plan for upcoming activities. Team members involved in current or upcoming projects participate in the calls to ensure first-hand communication and coordination. Where clients have an Audit Committee, we usually establish a regular meeting frequency, which ranges from monthly to three times per year, with frequencies adjusted up or down depending on current audit activities. We also usually establish a regular meeting frequency with the City Council, which is typically semi-annual or annual to keep the Council up to date on overall internal audit progress. These meetings are supplemented by presentations of internal audit reports.

2. Provide a sample internal audit report and discuss the type(s) of reports and related audit information that is provided to the client.

Moss Adams is pleased to provide examples of our relevant work. Included in the Attachment to this proposal are three work samples. We selected recent deliverables from our internal audit engagements with the City of Santa Monica, City of Modesto, and City of Stockton. Included are:

1. City of Santa Monica Internal Controls Review
2. City of Modesto Enterprise Risk Assessment
3. City of Stockton Payroll Internal Controls Review

6. FEES

1. Provide your fees for the proposed service. Fee quotes should be detailed by service.

Moss Adams utilizes a team approach to meet the internal audit needs of our municipal clients. A team approach enables us to leverage the breadth and depth of experience of our extensive internal audit resources and deliver cost effective services. Our fee quotes include all professional fees and travel expenses.

The initial projects that we typically perform for our internal audit clients are an enterprise internal control review and enterprise risk assessment. In order to perform these services as efficiently and effectively as possible (least cost to and time impact on our clients), we perform these projects at the same time. Performed separately, enterprise internal control reviews and enterprise risk assessments typically cost \$35,000 to \$40,000 each, depending on the complexity and size of the client. When performed together, an enterprise internal control review and risk assessment can be performed for \$50,000 to \$60,000, which is the fee quote we are offering to the City, as shown below by service.

Project	Fee Quote
Enterprise Internal Control Review	\$25,000 to \$30,000
Enterprise Risk Assessment	\$25,000 to \$30,000
Total Fee	\$50,000 to \$60,000

2. Outline billing and payment expectations, including timing and method of payment.

We invoice our clients monthly based on services rendered. Our invoices itemize costs by team member, including billing rates and hours. Our invoices will include all professional fees and expenses incorporated into the hourly rates. Clients are able to pay via multiple methods.

3. Describe any remaining fees not already detailed above.

All relevant fees have been provided above.

7. EXCEPTIONS TO SPECIFICATIONS

This Proposal is contingent upon negotiation of mutually acceptable engagement agreements. With regard to the terms set forth in Exhibit A to the RFP, Moss Adams suggests focusing indemnification to claims arising from personal injury or property damage to the extent proximately caused by the firm's negligence (§§ IV, V). In addition, Moss Adams requests the following clarifications to the insurance requirements: protecting the confidentiality of professional liability declarations pages, recognizing the firm maintains a separate automobile policy for non-owned and hired autos (no owned vehicles), permitting use of blanket endorsements, and addressing replacement coverage in the event of a cancellation.

We have successfully signed professional services agreements with thousands of clients, including many cities and municipalities for internal auditing services, and we commit to working in good faith to successfully negotiate a mutually agreeable contract on a timely basis should we be awarded this engagement.

8. REFERENCES

Moss Adams is pleased to provide references that reflect our relevant experience for this important engagement. Below please find references for three current internal audit clients. In each case, these references represent the same services that we would provide to the City of Culver City. We encourage you to contact these references for feedback about the breadth, depth, and quality of our services; our collaborative approach; and the level of client satisfaction.

Reference #1	
Client	City of Stockton
Contact Person	Christian Clegg, Assistant to the City Manager
Contact Information	209.937.8205, christian.clegg@stocktongov.com
Project Description and Dates	Full Internal Audit Services; February 2013 to date

Reference #2	
Client	City of Modesto
Contact Person	Joe Lopez, Deputy City Manager
Contact Information	209. 577.5402, joelopez@modestogov.com
Project Description and Dates	Full Internal Audit Services; January 2011 to date

Reference #3	
Client	City of Santa Monica
Contact Person	Gigi Decavalles-Hughes, Director of Finance
Contact Information	310.458.8281, gigi.decavalles@smgov.net
Project Description and Dates	Full Internal Audit Services; September 2014 to date



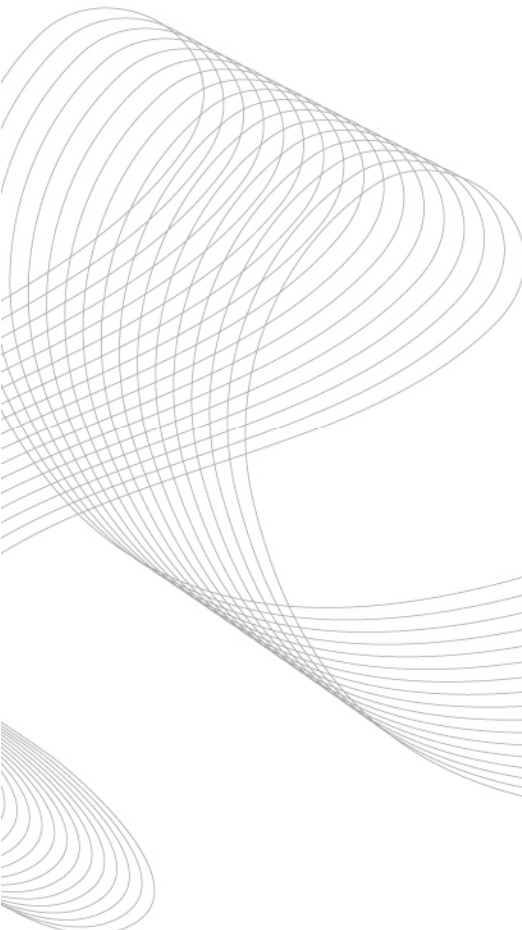
9. CERTIFICATES OF INSURANCE

Upon successful award, Moss Adams will provide the required Certificates of Insurance evidencing required coverage types and minimum limits.

10. ATTACHMENTS

Moss Adams is pleased to provide the following work samples to demonstrate the quality and range of our deliverables:

- City of Santa Monica Internal Controls Review
- City of Modesto Enterprise Risk Assessment
- City of Stockton Payroll Internal Controls Review



FINAL REPORT
CITY OF SANTA MONICA
INTERNAL CONTROLS REVIEW

March 17, 2015

Prepared by:

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Certified Public Accountants | Business Consultants

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I. EXECUTIVE SUMMARY

The City Manager of the City of Santa Monica (the City) requested third-party assistance to review the City's internal controls framework. The review took place between October and November 2014 and focused on assessing select key controls in areas deemed important to protecting the City's assets and resources, and processing and reporting timely financial information.

The review of internal accounting controls was completed under the consultancy standards of the American Institute of Certified Public Accountants (AICPA). As such, this work was not an audit of internal controls that resulted in a formal opinion or other form of assurance. Moss Adams reviewed the City's internal controls for design but did not test those controls for operating effectiveness, which is assumed to be a forthcoming activity.

Specific areas where controls were reviewed included:

- Payroll and timekeeping
- Purchasing and accounts payable
- Monthly account reconciliation and closing
- Cash receipts and cash handling
- Revenues and billings
- Accounts receivables and write-offs
- Grant management and compliance
- IT general controls

The City has key internal controls in place for many functions. However, there is always opportunity for improvement, both in terms of effectiveness and efficiency. Opportunities for improvement of varying degrees were discovered in most of the functions reviewed, especially in the case of decentralized operations. Historically, a number of the City's financial operations have been decentralized to some extent in order to take advantage of department expertise, and to increase accountability and efficiencies. However, like many organizations throughout the country, the City has seen an increase in staff retirements, and therefore turnover, over the past few years. This turnover has highlighted the need to strengthen the dissemination of updated policies and procedures for decentralized functions.

The internal controls gaps for the City can be primarily attributed to five factors:

- Lack of training of employees
- Insufficient policies and procedures
- Inadequate systems
- Manual controls that could be improved with automation
- Deficient processes



The implementation plan provided below defines an approach to addressing the internal control gaps listed in Section III. The gaps have been grouped into the following recommendation categories:

- Addressed through future internal audit work plans
- Discrete tasks that are more easily implemented
- Take time to develop and implement
- Require developing policies and procedures
- Require training
- Require changes to current technology
- Relate to initiatives already underway

Some gaps are listed in more than one category.

Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
Recommendations that will be addressed through Internal Audit work plans				
Monthly Reconciliation – 1	High	High	Bank Reconciliation	Internal Audit: prepare documentation
Revenue and Cash – 2, 8, 9, 10	High	Moderate	Cash Handling	Internal Audit: update policies and procedures and provide training
Accounts Receivable – 1 Revenue and Cash – 12, 13	High	High	Accounts Receivables	Internal Audit: assess A/R, inventory, ambulance billing, fees and invoicing
Revenue and Cash – 3 Training - 1	High	Moderate	Fraud and Internal Controls	Perform training
Recommendations that have discrete tasks that are easily implemented				
Revenue and Cash – 1	High	High	Counting Room	Finalize draft access policies, and distribute and maintain log book
Purchasing and A/P– 1	High	High	A/P	Disseminate existing policies and procedures, and provide training
Revenue and Cash – 5	Moderate	High	Cash Transport	Select secure method for cash transport
Revenue and Cash – 4	High	Moderate	Storage	Lock cabinets and secure keys, issue permits in sequential order, and reconcile permit system and POS
Revenue and Cash – 7	Moderate	Moderate	Counting Room	Repair closed circuit monitor, and revise policy
Purchasing and A/P – 5	Moderate	Moderate	P-Cards	Provide consistent enforcement
Revenue and Cash – 6	Moderate	Moderate	Counting Room	Ensure policy compliance
Grants Management – 1	Moderate	Moderate	Grants	Adopt draft Administrative Instruction
Revenue and Cash – 14	Low	Moderate	Safes	Obtain safe

Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
Payroll – 6	Moderate	Low	Overtime	Track overtime errors, and provide training
Purchasing and A/P – 6	Low	Low	A/P Queries	Document process, and perform monitoring
Purchasing and A/P – 7	Low	Low	Duplicate Payments	Increase frequency of monitoring
Recommendations to be implemented by the City that will take time to implement				
Payroll – 1	High	Moderate	Onboarding and off-boarding	Perform process development and documentation
Purchasing and A/P - 2	High	Moderate	Personnel changes	Perform process development and documentation
Purchasing and A/P – 3	High	Moderate	P-card review	Perform process improvement and documentation
Purchasing and A/P – 4	High	Low	Credit card refunds	Perform process improvement and documentation
Accounts Receivable – 2	Moderate	Moderate	Billing and Collections	Develop process, policies, and procedures for billing and collections
Revenue and Cash – 9	Moderate	Moderate	Cash handling	After cash handling audit, develop program and perform random cash audits
Grants Management – 2	Moderate	Moderate	Grants Management	Hire dedicated position, develop policies, provide training
Payroll – 2	Moderate	Moderate	Pay rate verification	Perform process improvement and documentation
Payroll – 3	Moderate	Moderate	Timekeeping	Implement electronic timecards
Payroll – 4	Moderate	Moderate	Overtime	Perform process improvement and documentation
Payroll – 5	Moderate	Moderate	FLSA	Monitor supplemental timecards
Payroll – 9	Low	Moderate	Timekeeping	Implement random reviews of schedules and timekeeping

Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
Revenue and Cash – 15	Low	Moderate	Cash handling	After cash handling audit, analyze need for separate cash tills
Purchasing and A/P – 8	Low	Low	Waste refunds demolition	Perform process improvement and documentation
Recommendations that require documentation of policies and procedures				
Revenue and Cash – 1	High	High	Counting Room	Develop policy for visitor access
Citywide and Departmental Policies – 1	High	Moderate	Administrative Instructions	Update and revise
Payroll – 7	Moderate	Low	Timekeeping review	Develop policy and provide training
Payroll – 10	Low	Low	Payroll	Document internal procedures
Citywide and Departmental Policies – 2	Low	Low	Department procedures	Develop and document procedures
Recommendations that require training				
Purchasing and A/P – 1	High	High	A/P review and approval	Conduct training for A/P staff
Training – 2	Low	Low	Fiscal training	Assess gaps and update training
Recommendations that require changes to current technology				
Revenue and Cash – 11	Moderate	Moderate	POS	Explore POS features and develop plan for comprehensive deployment
Payroll – 9	Low	Moderate	Scheduling	Explore additional Kronos capabilities

Recommendations related to internal initiatives already under development	
New ERP System	
Payroll – 2	Payroll – 3
Payroll – 5	Payroll – 8
Accounts Receivable – 1	
Training Academy	
Payroll – 4	Payroll – 6
Payroll – 7	Training – 1

II. SCOPE AND METHODOLOGY

The scope of our review included a high-level evaluation of key internal controls throughout the City of Santa Monica to determine the general adequacy of enterprise internal controls and identify areas warranting more in-depth review in the future.

The scope of internal controls review included the following aspects:

- Identifying control objectives in specific areas and identifying controls that would satisfy each control objective
- Reviewing policies and procedures
- Examining relevant documentation in support of select key controls
- Performing control walk-throughs to observe the design of key controls and understand workflow processes
- Obtaining an understanding of the characteristics of each relevant control activity (who performs it, how often it is designed to operate, whether it is designed to mitigate fraud, whether it is a manual or programmed [automated] control, and whether it is a preventive, detective, or corrective control)
- Assessing whether the controls in place would prevent or detect errors
- Providing recommendations on key controls that need to be implemented or changed

The work performed included interviews with personnel involved in managing functions, processing key accounting transactions, and handling physical assets. Such positions included:

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City Manager

- Interim City Manager

Finance/Accounting Department

- Director of Finance
- Assistant City Treasurer/Acting Business & Revenue Operations Manager
- Former Business & Revenue Operations Manager
- Revenue Collections Supervisor
- Senior Revenue Collections Assistant
- Revenue Collections Assistants
- Accounts Payable Supervisor
- Purchasing Services Manager
- Budget Manager
- Accounting Manager
- Financial Reporting Supervisor
- Financial Systems & Payroll Administrator
- Payroll Analyst
- Utilities Billing Supervisor
- Business License Administrator
- Billing & Collections Administrator
- Administrative Analyst
- Fiscal Staff Assistant 3 (Payroll)

Big Blue Bus

- Chief Financial Officer
- Transit Finance and Grants Manager
- Senior Admin Analyst (Grants and Capital Costs)
- Fiscal Staff 3 (Payroll)
- Accountant 1 (Counting Room)
- Senior Admin Analyst (Budget)

Police

- Deputy Chief of Police
- Senior Admin Analysts
- Police Personnel Services Technician

Fire

- Principal Administrative Analyst

Public Works – Civil Engineering

- Principal Civil Engineer
- Civil Engineering Technician

Public Works - Resource Recovery & Recycling

- Resource Recovery & Recycling Manager
- Principal Public Works Analyst

Community and Cultural Services (CCS)

- Senior Administrative Analyst
- Executive Administrative Assistant
- Principal Supervisor, Community Aquatics
- Aquatics Site Supervisor
- Community Recreation Manager – Acting

Planning and Community Development – Parking

- Acting Parking Administrator
- Administrative Analyst
- Fiscal Staff Assistant 3

Information Technology

- Chief Information Officer
- Software Systems Division Manager
- Systems and Network Manager
- Fiscal Systems and Payroll Administrator
- Lead Systems Analyst, Information Systems

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In addition to in-person interviews, an Internal Control Survey was disseminated to division managers of CCS (Human Services, Community Recreation, and Cultural Affairs) and Public Works (Architecture Services, Facilities Maintenance, Public Landscape, Street and Fleet Services, Airport, and Water Resources) to obtain a broader understanding of the internal control environment throughout these departments.

In support of the internal controls review, the matrix provided in Section III provides a summary documentation of:

- Control objectives
- Control issues
- Corresponding recommendations
- Likelihood of occurrence
- Impact of occurrence

Likelihood of occurrence is defined as the probability of a negative event occurring. Impact of occurrence is defined as the level of significance if a negative event occurs. Risk levels of low, moderate, or high were used to rate the likelihood of occurrence and impact of occurrence for each finding.

Beyond those controls that have been reported within this report as a control issue, additional controls were reviewed without exception. The total population of controls reviewed was over 100 controls. It should be noted that many of the same controls were reviewed multiple times in relevant, separate department reviews.

Of the over 100 controls reviewed, the 41 controls with exception conditions, or areas that would benefit from improvement, are reported in this document. The following Internal Controls Matrix with exception conditions in Section III is organized in order of risk. Those categories listed first are considered to be, on the whole, of greater risk to the City, than those categories listed last. Within each category, exception conditions are further organized in descending order, with control issues receiving “high” likelihood of occurrence and “high” impact of occurrence rankings listed first, and control issues receiving “low” likelihood of occurrence and “low” impact of occurrence rankings listed last. In developing an implementation plan for addressing recommendations within this report, the City should consider the categorical order, as well as the exception condition order within each category, as a means of prioritizing remediation activity. Eight controls are shown to have a high likelihood of occurrence, one would have a high impact occurrence, and four are characterized as having both a high likelihood and high impact occurrence.

Findings can be addressed through the updating and sharing of policies and procedures throughout the organization, increased training, decreased reliance on manual processes, changes in technology, and implementation of additional controls. As stated in the management responses in Section III, in many cases, staff has developed and is implementing manual checks and balances to ensure that processes are completed accurately and appropriately. The Finance Department has already begun work on both of these goals in its effort to update policies and procedures and increase training throughout the City, and

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its implementation of a new enterprise resource planning (ERP) automated financial system. The results of this review, and Moss Adams' continued consultative approach, will guide staff in incorporating best practices into their processes. This work is a priority for the Finance Department and will be completed in phases over the next 12 to 24 months.

III. INTERNAL CONTROLS REVIEW

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
A. Payroll					
<p>1. Personnel changes are accurately communicated by Human Resources to other applicable departments in a timely manner.</p>	<p>While departments are required to complete Form 100 for any personnel action, this form is not always transmitted to the Human Resources Department in a timely manner, which puts City assets and safety at risk. Additionally, the City as a whole does not have a formal work flow process for personnel change information to be communicated from the Human Resources Department to other affected departments, like Information Systems Department (ISD), Finance, and Parking.</p> <p>For example, when an employee leaves the City or is terminated, that employee's access to City information systems and physical buildings, as well as purchasing or contract signing authority, must be deactivated in a timely manner. Any access cards, keys, information technology (IT) equipment, purchasing card, other work equipment, and identification badges must be collected.</p>	<p>The Human Resource Department, in conjunction with the Finance Department, ISD, and Parking Office, should develop onboarding and off-boarding programs for City employees. These programs should include proper notification to departments that are impacted by the arrival, departure, or intra-City transfer of employees. These programs should also include a checklist for the distribution/collection of materials (hardware, software, badges, keys, equipment, etc.), abilities (P-card, authorized signer on certain accounts/contracts, parking privileges), and IT rights (accounts, access levels in JD Edwards, PeopleSoft, and other systems).</p>	<p>While there is no formal procedure outlined for the off-boarding of an employee that coordinates the notifications of all departments involved, the Financial Systems & Payroll Unit takes proactive steps to control the process. Staff runs a report looking for all activity performed in the HR/PR system to capture employee terminations. This information is used to immediately de-activate the employee's access to the financial system. When employees are terminated for cause, the Financial Systems & Payroll Unit is often contacted by the user department to coordinate the de-activation of financial system access. Additionally, when employees are terminated, Payroll staff turns off direct deposit of their final pay check and sends a physical check to the employee's home department, allowing the department to collect any outstanding equipment in return for the paycheck. If the employee requests that their final check be made via direct deposit, this must be authorized by the employee's division manager or department head.</p>	<p>High</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>2. Employee pay rates are accurate.</p>	<p>Pay rates errors are not detected consistently. All changes in employee pay, such as upon hire, promotion, or transfer, are recorded on standard Human Resources forms. These forms are entered by Human Resources staff. Another member of the Human Resources staff performs audits to check the accuracy of pay rates and compliance with bargaining unit agreements. In accordance with appropriate segregation of duties, the Human Resources Department enters these pay rate changes into the PeopleSoft system. The Payroll Division has “read only” access to these rates, but it is unable to change them. Due to turnover within the Human Resource Department, there has been an increasing number of errors in pay rates. For example, Payroll Division staff recently found that additional pay rates were incorrectly applied to a Police Officer. If undetected, this error would have resulted in overpayment. Without a well-trained individual in Human Resources consistently performing this check for accuracy, the City is overly reliant on the Payroll Division to detect errors, rather than preventing the error from occurring.</p>	<p>Continue training for the recently filled position in the Human Resources Department to resume the comprehensive pay rate verification function.</p> <p>Document the process and procedures for ensuring the application of appropriate pay rates, including the use of queries.</p> <p>Cross-train another senior staff member in the Human Resources Department to provide backup for this function.</p> <p>Explore features in the new Enterprise Resource Planning (ERP) system to support the verification of pay rates to ensure accuracy.</p>	<p>Financial Systems & Payroll staff are doing their best to assist in the cross training of HR staff when this staff has knowledge of the processes. In addition, Financial Systems & Payroll staff has initiated a monthly “functional” meeting with relevant HR staff so that both departments can fine-tune the process of roles, responsibilities and documentation of processes.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>3. Hours worked (including overtime) are authorized and accurately reported.</p>	<p>Inconsistent and manual, paper time card entry and approval is inefficient and prone to human processing errors and fraud. Most of the City's employees report their time electronically using the Kronos system. However, employees in the City Attorney's Office and employees within some divisions of Human Services use paper timesheets rather than Kronos. Also, due to a shortcoming with the configuration of PeopleSoft, employees with more than one job in the City cannot use Kronos. Instead, they have to use paper timesheets.</p> <p>The approval of employee time entry and verification of accuracy, whether electronic or paper, is largely decentralized and performed primarily by departments. The Payroll Division performs a variety of checks to ensure accuracy, such as queries to ensure that enough hours are reported for full-time employees and citywide holidays are recorded. The Kronos system maintains a full audit trail of timekeeping activities. In case of errors or anomalies, the Payroll Division can identify the activities of individual users. In contrast, paper timekeeping does not reliably provide this type of information. Ultimately, supervisor's review of employee time is the most important control over accurate timekeeping. The use of manual timesheets increases the risk of a clerical error not being identified.</p>	<p>Continue to work with the City's Attorney's Office and impacted divisions of Human Services to adopt electronic timesheets.</p> <p>Ensure the City's new payroll system is configured to process electronic timesheets for employees with more than one job.</p>	<p>Financial Systems & Payroll staff will work on converting the City Attorney's office over to the electronic timekeeping system. In addition, staff is researching a system upgrade that will allow remote access to Kronos.</p> <p>The new ERP system specifications require that employees with multiple jobs be accommodated. Once a vendor is selected and implementation for the HR/PR portion of the system is in process, this requirement will be configured and tested to ensure this compliance.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>4. All overtime hours are authorized in accordance with City's overtime policy and authorization is appropriately documented.</p>	<p>Due to decentralized payroll review by each department, there is a risk of non-compliance with payroll-related collective bargaining agreements, City policy, and various statutes. The City's Payroll Division does not collect or review overtime forms. The designated staff person in charge of timekeeping within each division/department is responsible for reviewing and maintaining overtime authorization forms. Therefore, ensuring that appropriate authorization is obtained in accordance with bargaining unit agreements is decentralized to departments. The Payroll Division only receives these forms in instances when overtime adjustments must be made after the fact.</p> <p>Because departments have varying levels of resources assigned to review overtime authorization forms and determine if overtime is approved and accurately recorded on timesheets, some departments are not consistently monitoring the appropriateness of overtime. For example, the Finance group in the Big Blue Bus (BBB) performs a secondary review of timekeeping to detect any unscheduled overtime and ensure that all overtime has proper authorization. In contrast, other departments must rely almost entirely on supervisory review and approval. The review may be performed by someone who does clearly understand their role in the review process.</p>	<p>Evaluate City's current overtime policy and clarify the roles of the Payroll Division and departments. Determine if changes should be made to more effectively manage overtime and prevent potential abuse.</p> <p>Consider conducting periodic audits of overtime authorization and approval. A record should be maintained to document the errors that are detected. The Payroll Division should evaluate these errors and provide training on stronger internal controls for departments with significant or reoccurring errors.</p> <p>Include overtime policy and procedures as a subject matter in the training curriculum for supervisors.</p>	<p>Management believes that decentralized payroll review is necessary to ensure proper accounting for staff time, and management of staff, by supervisors.</p> <p>Management agrees that employees would benefit from a standard set of procedures on the approval and payment of overtime. And Human Resources will include standard policies and procedures on this issue in its training curriculum for supervisors.</p> <p>Payroll staff is also in the process of updating all policies and procedures and will insert clear policies involving the payment of overtime.</p> <p>In the meantime, the Financial Systems & Payroll staff will continue to run reports after every pay period to look for employees with net payments over \$10,000. If these payments exist, they are reviewed and given to the Finance Director with an explanation of the significant amount.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
	<p>This inconsistent review across departments can lead to errors in overtime reporting and allow overtime abuse, should it occur, to go undetected, since there is no mitigating control within the Payroll Division.</p>				
<p>5. Fair Labor Standards Act (FLSA) pay is calculated and tracked accurately.</p>	<p>The existing payroll system lacks the sophistication to comprehensively process variable payroll cycles. As a result, the City has developed workarounds via manual timecards outside of the payroll system, which may be prone to human error, omission, and non-compliance with federal labor laws. The City uses a program that interfaces with the PeopleSoft system to automatically calculate FLSA pay for Fire Department and Police Department employees. However, this program has limitations. For example, the program cannot be used to calculate FLSA pay for any firefighters assigned to administrative duties. Similarly, any employees outside of these two departments who are eligible for additional pay have to submit supplemental timesheets. In these cases, the Payroll Division must use these supplemental timesheets to manually calculate FLSA pay. Not only does human error decrease the reliability of these manual calculations, but Payroll relies on eligible employees to submit timesheets.</p>	<p>Continue to review manually calculated FLSA pay to ensure accuracy.</p> <p>Explore opportunities to efficiently monitor receipt of supplemental timecards, such as maintaining a list of positions and employees eligible for FLSA who would require supplemental timesheets and e-mail reminders to departmental timekeepers to ensure submittal of these forms.</p> <p>During the selection process for a new ERP system, ensure that the system is capable of automatically calculating FLSA pay accurately for all eligible employees.</p>	<p>Management agrees with the recommendation. This is primarily an efficiency issue as staff has developed the appropriate manual methodology to complete the process.</p> <p>Payroll staff will be working with HR staff on an ongoing basis to minimize the risk of FLSA issues. Payroll Staff has met with an attorney who specializes in FLSA issues to assist in minimizing risk.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>6. Hours worked (including overtime) are authorized, and the authorization is appropriately documented.</p>	<p>Review of manual timecards is labor intensive and prone to errors of missed overtime or overpayment. Timekeeping errors discovered at various departments, such as unauthorized overtime, waiving overtime pay, or over-reporting hours resulting in overpayment, suggest that the reviews being performed at the departmental level may not be sufficient to ensure accuracy.</p>	<p>Provide timekeeping training to departmental personnel involved in the review and approval of employee time entry.</p> <p>Track the type of errors discovered to identify similar issues and ongoing problems with specific departments. This will help identify specific areas where personnel need additional training.</p>	<p>Financial Systems & Payroll staff have prepared timekeeping manuals which are available on the City's intranet. Staff will work on developing additional training for departmental staff to minimize the risk identified in this issue. As noted above, staff will also consider adding guidance on overtime management to supervisor training.</p>	<p>Moderate</p>	<p>Low</p>
<p>7. Supervisors are provided adequate timekeeping training, as well as training on labor law compliance.</p>	<p>There is no citywide training for new supervisors about issues related to managing employees. In particular, training is not provided about complying with Fair Labor Standards Act (FLSA) requirements and bargaining unit agreements. Additionally, supervisors are not adequately trained on labor laws that must be observed, such as overtime eligibility rules. Without this type of training, supervisors may not be equipped with enough information to ensure that all fair labor laws and rules are observed by the City. Thus, the absence of this training presents a risk for the City.</p> <p>Additionally, no citywide guidance has been provided to departments on how timekeeping should be monitored and audited. As a result, the practices of individual departments vary for auditing employee timesheets. For example, BBB has a thorough and well-documented process for auditing employee timekeeping.</p>	<p>Incorporate employment laws and rules, including FLSA, overtime eligibility, and timekeeping review into the training curriculum under development for new supervisors. Consider providing this training to all supervisors.</p> <p>Develop recommended practices for auditing timekeeping and distribute to departments City-wide.</p>	<p>Management agrees with this recommendation.</p>	<p>Moderate</p>	<p>Low</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
	<p>In contrast, other departments do minimal auditing of timekeeping and do not have documentation. This lack of consistent direction to both departments and supervisors to ensure accurate timekeeping is a missing key control.</p>				
<p>8. Gross pay and related employer obligations are recorded accurately.</p>	<p>The payroll process requires manual processing that is prone to error and time-consuming. Every pay period, data must be uploaded from the City's payroll system, PeopleSoft, to the City's financial system through an interface with its general ledger. The interface was built to create a journal entry file from PeopleSoft. This file usually contains approximately 600 lines of journal entries for accrued payroll and payroll liabilities. While the process is partially automated, it requires approximately three hours of staff time, on a bi-weekly basis, to perform this function. More time may be necessary when mistakes are detected and must be corrected.</p>	<p>Continue the process for selecting and implementing a new ERP, which would incorporate improved payroll functionality. Until implementation is complete, continue to thoroughly review these files.</p>	<p>Management agrees and considers this primarily an efficiency issue as staff has implemented a number of checks and balances to ensure that the manual interface is done accurately. After the successful implementation of the new ERP system, this control issue will no longer exist as the integrated system will automatically prepare and transfer the payroll data into the general ledger.</p>	<p>Low</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>9. Hours are accumulated accurately and are accurately processed.</p>	<p>Payroll is not reviewed holistically or against schedules to identify variances or anomalies that would flag inaccurate payroll processing. Some departments have scheduling systems that are used to manage departmental operations. This information, if used, can provide greater assurance of the accuracy of time reported. For example, the Police Department uses InTime to manage scheduling for the Department. However, this information is not routinely reconciled to the information in the Kronos timekeeping system. Similarly, Recycling and Resource Recovery (RRR) uses routing software to manage staffing and services. However, the information in this system is not reconciled to the timekeeping system. Scheduling systems can serve as an additional mitigating control against inaccurate or fraudulent time reporting.</p>	<p>Explore interface opportunities between Kronos and scheduling systems used by departments, including advanced scheduling options within Kronos, to create better systematic controls over timekeeping.</p> <p>If the systems are not technologically compatible, the departments should consider implementing random audits or spot checks to reconcile scheduling information to time reporting.</p>	<p>Management agrees with this recommendation. Staff is requesting cost information on the advanced scheduling system module produced by Kronos. Staff will also review the data from the external scheduling systems and work with Kronos to see if an interface can be built to minimize the risks.</p>	<p>Low</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>10. Payroll processes are well documented.</p>	<p>Payroll processes are not consistently documented. The Payroll Division has made a concerted effort to increase documentation of its processes, as well as its policies and procedures. For example, the Payroll Division has documented the more than 200-step procedure for processing payroll each pay cycle. Many of these steps outline the queries that Division staff perform to detect any anomalies or errors. However, the Division lacks documentation of other functions it performs. Without policies, procedures, or desk manuals documenting these complex processes, the Payroll Division cannot ensure that its existing controls to correctly pay employees, as well as comply with labor rules and laws, will continue to be applied correctly.</p>	<p>Continue efforts to document policies and procedures within the Payroll Division. Once policies and procedures have been documented, establish a process to keep the policies and procedures updated.</p>	<p>The Payroll Office is in the process of rewriting their policies and procedures manuals so that all processes are documented. In addition, desk procedures where necessary will also be written and maintained.</p>	<p>Low</p>	<p>Low</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
B. Purchasing and Accounts Payable					
<p>1. Accounts Payable staff within the departments receive adequate training.</p>	<p>Beyond guidance on the fiscal year-end process, the Accounts Payable Division has not provided departments with policies and procedures regarding accounts payable. For example, departmental accounts payable staff has not been advised about how they should review invoices prior to approving them for payment. As a result, departmental accounts payable staff are unclear about certain issues, such as when and how to apply taxes and, thus, without training, some departments perceive the Accounts Payable Division's treatment of invoices as inconsistent. In a decentralized system, it is imperative that departments have adequate training and guidance to successfully perform functions like invoice review and approving payables. Without this training or guidance, the City lacks sufficient controls to ensure that funds are being spent appropriately.</p>	<p>Share existing Accounts Payable Division policies and procedures, such as how to appropriately review invoices, with departments.</p> <p>Conduct training for departments on accounts payable processes and procedures.</p>	<p>Management agrees with the recommendation and plans to expand the Accounts Payable training program that was initiated last year for the year-end process to include basic issues such as invoice review and application of taxes.</p>	<p>High</p>	<p>High</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>2. All purchasing cards are promptly collected or cancelled upon employees' termination.</p>	<p>Purchasing does not always receive timely notification when an employee status changes, resulting in purchasing cards not being terminated timely. The current process for disseminating information between departments about employee status changes that may affect purchasing cards is not efficient and has proven to not always be effective as the Purchasing Department is not consistently made aware of an employee's departure in a timely manner. The Purchasing Division within the Finance Department is responsible for issuing and terminating purchasing cards. When an employee terminates employment with the City, it is up to individual departments to notify the Purchasing Division of the termination, so the Division can cancel the purchasing card. At the same time, departments are also responsible for notifying the Human Resources Department of terminations via Form 100.</p>	<p>See recommendation for <i>Payroll - Control Objective #1</i>.</p>	<p>When an employee terminates employment with the City, the purchasing card is one of the items that is retrieved along with other city issued items such as badge, keys, computer or phones.</p> <p>To ensure that all employees are aware of their responsibilities in gathering City property from employees leaving the City, the responsibility to cancel the card will be addressed in the Purchasing Card Administrative Instruction that is currently in being updated.</p>	<p>High</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>3. Purchasing card transactions are reviewed for accuracy and appropriate-ness.</p>	<p>The responsibility for monitoring purchasing card transactions for appropriateness is not clearly assigned. While purchasing card transactions are reviewed by Accounts Payable personnel on a monthly basis to ensure overall compliance with Purchasing Card Manual rules, responsibility for detailed monitoring of purchasing card transactions has not been assigned. For example, Accounts Payable personnel ensure that receipts are submitted and sales and use tax is accurately calculated. However, Accounts Payable personnel are not currently reviewing transactions to determine if pricing is reasonable for goods purchased, vendors are already under contract or purchase order with the City, or the purchase is for prohibited items per policy, such as IT hardware or software. Additionally, while the Purchasing Card Manual includes clear explanation for the cardholder, the roles and responsibilities of the departmental approver are not as clear. During fiscal year 2013-14, the City spent a total of \$1.7 million with purchasing cards. Without clearly defined roles and responsibilities, purchasing cards may be used to make purchases that are not competitive, out of compliance with City policy, or fraudulent.</p>	<p>Define roles and responsibilities for purchasing card transaction review within the Finance Department, Accounts Payable, and Purchasing Division, and incorporate them into the Purchasing Card Manual. Best practice is for:</p> <ul style="list-style-type: none"> • Departmental approvers to review all transactions for compliance with City policy, managerial direction, and overall accuracy, as well as ensure that appropriate support is provided by the cardholder prior to approval and submittal to Accounts Payable. • Accounts Payable to review all transactions for accuracy of transaction and tax amounts, existence of support, and completeness • Accounts Payable or Purchasing Division to periodically audit (at least once every quarter) transactions for: <ul style="list-style-type: none"> ○ Purchases with vendors with whom the City has existing POs/contracts ○ Purchases for goods/services that the City is able to provide internally or through existing POs/contracts ○ Reasonableness of pricing ○ Sum of amounts spent with each vendor approaching limits requiring POs/contract ○ Appropriateness of purchases 	<p>Management believes that responsibility for monitoring the appropriateness of transactions is clearly assigned and stated in the purchasing card policies and procedures, and that it is the approver's responsibility at the department level. This direction will also be included in the upcoming purchasing card Administrative Instruction.</p> <p>Management agrees with all other recommendations.</p>	<p>High</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>4. Credit card refunds are monitored.</p>	<p>Due to decentralized processing, refunds by credit card are not processed and monitored consistently or independently for propriety.</p> <p>Departments must submit requests for refunds by check to the Accounts Payable Division, which reviews and verifies these requests prior to issuing a refund. In contrast, refunds by credit card are not processed and monitored in the same manner citywide. Instead, departments are responsible for ensuring the appropriateness of their own credit card refunds. When establishing new user profiles for the credit card system, the Treasury relies on managers or supervisors in departments to identify and determine the staff members that should have the ability to process credit card refunds. As such, departments have the ability to restrict or allow refund privileges as they see fit. While there is a built-in control in place that all refunds processed are associated with individual user IDs, there is no citywide policy in place to prevent and deter inappropriate or unauthorized credit card refunds.</p>	<p>Establish policies and procedures for departments to follow when performing refunds by credit cards to ensure that refunds are justified and appropriate.</p> <p>Develop a process for credit card refunds to be periodically monitored by the Finance Department or Treasury.</p>	<p>Management believes that the controls that are in place are sufficient. Refunds by credit card appear on the purchasing card statement and are reviewed and approved by department approvers during the reconciliation process as if they were a charge; department approvers are managers and department heads. However, to ensure that staff has a proper understanding of the process and their responsibilities, a refund process will be included in the upcoming purchasing card Administrative Instruction.</p>	<p>High</p>	<p>Low</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>5. An enforcement system is in place to discipline employees for non-compliance with the City's purchasing card policies.</p>	<p>Until recently, the City did not have an enforcement program in place for violations of the City's purchasing card policies. Without a well-understood, formally documented, and consistently applied enforcement system for employee compliance with purchasing card policies, there is less of a deterrent for policy violation. Within this type of environment, fraud is more likely to occur. Even though the City does have a point system for citing violations that was recently implemented, the system has not been applied consistently. Further, the Supervisor of the Accounts Payable Division is not aware of any penalties that have been applied for personal use of the purchasing cards. Finally, the Division is working to standardize the notifications it sends to departments when there are outstanding receipts.</p>	<p>Continue implementation of enforcement program for violations of the City's purchasing card policies. Complete efforts to create an enforcement system for purchasing card violations, including standardized notification language and an implementation plan.</p> <p>Ensure P-card users understand the enforcement system.</p> <p>Consistently apply the enforcement system immediately upon detecting violations of the P-card policy.</p>	<p>The purchasing card violation program, which includes penalties, was formalized and distributed to staff in January 2015, and individual department trainings were conducted. Purchasing notifies departments on a monthly basis about outstanding receipts and status of violations.</p> <p>The purchasing card agreement is now signed by all purchasing card users in addition to card holders to ensure an understanding of the enforcement system.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>6. Accounts Payable processes are well documented.</p>	<p>Accounts payable has taken a reactive approach (detect and remedy) versus a practice approach (prevent) to purchasing policy non-compliance.</p> <p>In accordance with the City's purchasing policy, purchases greater than \$10,000 require departments to follow the informal bid process. At the start of our fieldwork in October 2014, the City's Accounts Payable Division ran queries on a quarterly basis to verify that requests for warrants to the same vendor do not exceed \$10,000 per department per year. Since beginning our fieldwork, the Accounts Payable Division has significantly strengthened this control. Instead of monitoring cumulative vendor payments by warrant on a quarterly basis, staff now check for cumulative vendor limits as part of the review process for all warrant requests. This new proactive approach aims to prevent violations prior to occurrence instead of detecting and then trying to remediate non-compliance. This is a step in the right direction, but the Division has not yet updated its documented desk procedures to reflect this change in its process.</p>	<p>Document the new process in the Accounts Payable Division's policies and procedures, including the process for documenting and following up on issues detected.</p>	<p>Management agrees with this recommendation. Staff is currently updating the desk procedures for Accounts Payable staff to include this process.</p>	<p>Low</p>	<p>Low</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>7. Adequate monitoring of Accounts Payable is performed to detect potential problems or anomalies.</p>	<p>The City does not perform a timely review of duplicate vendor payments. To prevent duplicate payments of invoices, the Accounts Payable Division runs reports to check for payments of the same amounts issued to the same vendors. Currently, the Division only runs these reports quarterly, but it prints checks on a weekly basis. Therefore, duplicate payments could go undetected for up to three months. The occurrence of duplicate payments has significantly decreased over recent months as gained result of more experience and training. While improvements in staff performance are significant, more frequent monitoring of duplicate payments is still an important control to have in place to prevent overpayment.</p>	<p>Increase frequency of duplicate payment monitoring to every month.</p>	<p>Management agrees with this recommendation. Staff has implemented monthly duplicate payment monitoring.</p>	<p>Low</p>	<p>Low</p>
<p>8. Refunds are adequately supported and approved.</p>	<p>The City lacks written policies for departments requesting refunds, as well as a standardized refund request form used across departments. This inconsistency in forms and lack of guidance increases the chance that standardized information will not be collected and creates a greater chance for human error. In addition, there are inadequate controls over the collection and administration of demolition waste deposits.</p> <p>Prior to authorizing and processing refunds by check, departments must submit documentation supporting refund requests. The Accounts Payable Supervisor reviews the documentation to ensure that the justification for the refund is reasonable.</p>	<p>Develop and implement a standardized refund request form for use by all departments.</p> <p>Develop and disseminate refund request policies for use by all departments.</p> <p>Clarify responsibilities and document process for the collection of demolition waste deposits and authorization of refunds, including documentation requirements.</p>	<p>Management agrees with this recommendation. Staff has created a standardized form that is now required for all refund requests. This will be finalized and provided to users in March 2015. This new form will be added to the Accounts Payable policy, which is currently being updated. Finance will meet with Resource Recycling and Recovery and Public Works counter staff in order to clarify responsibilities and documentation requirements to strengthen the waste deposit refunding process.</p>	<p>Low</p>	<p>Low</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
	<p>Also, to prevent issuing inappropriate refunds, the Accounts Payable Supervisor verifies that the original payment was received and deposited into a City account. Overall, this process establishes good controls over refunds.</p> <p>Additionally, the process for refunding demolition waste deposits could benefit from stronger controls. City Hall staff collect the deposits, but Resource Recovery and Recycling (RRR) is responsible for managing these deposits and authorizing refunds. Without a clearly documented process and assignment of responsibilities for tasks such as retaining copies of deposit checks, it is difficult for the Accounts Payable Manager to ensure that refunds are being made appropriately to the right individuals.</p>				

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
C. Monthly Account Reconciliation and Closing					
1. Bank reconciliations are completed in a timely and accurate manner.	<p>The process of performing bank reconciliations is very complicated and difficult to understand. In addition, there has been turnover in the position responsible for performing these duties.</p> <p>When performing monthly bank reconciliations, there are a number of items that are reflected on the bank statement, but not in the general ledger and vice versa. The City is in the process of trying to reconcile these items. Without a reliable bank reconciliation process that can be performed fully and accurately, the City may not have an accurate depiction of its financial position or accurately detect error or potential fraud.</p>	<p>Further evaluate the City's bank reconciliation process to identify opportunities to simplify and streamline the process, as well as identify gaps in understanding and deploy training.</p> <p>Update the documented process for performing the monthly bank reconciliation based on any process changes.</p>	<p>Management agrees with the recommendation and has already implemented a change to streamline the bank reconciliation process. Procedures for the bank reconciliation are currently being updated in order to further clarify the process.</p>	High	High
D. Grants Management					
1. Grants management processes are well documented.	<p>Despite numerous efforts, the City does not have an administrative instruction for grants management. Instead, the Finance Department has communicated rules and shared guidance on an informal basis. Without formal documentation, departments are at an increased risk of not complying with the City's policies, as well as grant requirements.</p>	<p>Prioritize current efforts to draft and adopt a grants administration instruction.</p> <p>Distribute the grants administration instruction to grants personnel throughout the City and provide training on the instruction.</p>	<p>Management agrees with this recommendation. During the midyear budget process, Council approved a staffing change that created a Senior Grants Analyst position. This position will focus on monitoring the City's grants, clarifying roles and responsibilities, and providing training. The Grants Management Administrative Instruction is currently being updated. These written procedures will be in accordance with new Uniform Grant Guidance that address key compliance requirements applicable to the City.</p>	Moderate	Moderate

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>2. Roles and responsibility for grants management are clearly defined.</p>	<p>Without documentation regarding grants administration, the roles of the Finance Department and the grants personnel in departments remains unclear. According to the Accounting Manager, Finance is responsible for helping departments with the administration of grants. This role includes administrative tasks, such as establishing accounts and providing high-level fiscal and accounting oversight (e.g., ensuring periodic drawdowns). The departments that secure grant funding are ultimately responsible for ensuring compliance with specific grant requirements, such as allowability of costs and activities. In this decentralized environment, this division of roles seems reasonable. However, without policy guidance to clarify this division, the City increases its chance of grants non-compliance.</p> <p>In addition, grant responsibilities among Finance staff are unclear. There has never been a Finance position dedicated to the overall oversight and management of grants within the City, such as a Grants Analyst position. Instead, some monitoring and oversight activities have been distributed across Finance supervisors and staff. Without sufficient staffing resources for this function, improvements within grants management, such as training, policy development, and compliance knowledge, compete with other priorities and are not accomplished due to workload.</p>	<p>See recommendation for <i>Grants Management – Control Objective #1</i>.</p> <p>Continue efforts to establish and fill a dedicated Grants Analyst position to oversee the overall administration of grants across the City.</p> <p>Develop written procedures in accordance with new Uniform Grant Guidance that address key compliance requirements that are applicable to the City.</p>	<p>See Management Response for Grants Management – Control Objective #1.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
	<p>If insufficient oversight over grants continues, the City may face further audit findings related to grants management, such as the 2012 findings that found the overstatement of expenditures by more than \$100,000 and financial reports not submitted on time.</p>				
E. Revenue and Cash Collections					
<p>1. Access to areas with cash or vaults is restricted.</p>	<p>Comprehensive policies and procedures do not exist regarding access to the Counting Room.</p> <p>There are over 50 locations that collect cash within the City, the largest of which is the Counting Room. A new policy that clarifies the roles and responsibilities for granting access to the Counting Room (via electronic badges) is in the process of being drafted the Finance Department, ISD, and BBB. This policy will include a form for requesting Counting Room access that will require approval by the Department of Finance.</p> <p>Management within City departments has been allowed to enter the Counting Room and escort contractors into the Counting Room (for reasonable purposes). While they may call ahead, their presence is not recorded, and no record is kept of visitors being in the Counting Room. Should a discrepancy, error, theft, or other incident occur in the counting of meter or fare revenue within the Counting Room, it is imperative that a record of those entering and exiting the Counting Room be kept.</p>	<p>The Finance Department, ISD, and BBB should finalize and disseminate their Intradepartmental Policies and Procedures for Counting Room Access.</p> <p>The Revenue Collections Supervisor should work with the Assistant City Treasurer to develop a policy for when visitors to the Counting Room may be considered authorized and be admitted.</p> <p>The Revenue Collections Supervisor should maintain a logbook of all persons that enter the Counting Room who do not have authorized access through an electronic magnetic card. This logbook should include the date, time-in, time-out, name, position, company, and phone number for any visitor.</p>	<p>Management agrees with this recommendation. Comprehensive policies and procedures regarding access to the Counting Room are current being finalized by the Finance, Information Systems and Big Blue Bus Departments.</p>	<p>High</p>	<p>High</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
	This practice also protects the authorized employees working within the Counting Room from false accusations.				
2. Employees that handle cash on a regular basis receive cash handling training.	The City does not provide formal cash handling training. Instead, individual departments have to provide their own training. The City's Cash Handling policy is also outdated. The result is inconsistent handling of cash by departments.	Update the City's Cash Handling Policy (Administrative Instruction), and disseminate it to all City employees in positions that require cash handling. Once the policy is updated, the Finance Department, with the assistance of the Human Resources Department, should provide training as soon as possible, as well as future training for new hires and refresher training every two years.	Management agrees with this recommendation. Staff is in the process of updating the policy but was awaiting internal audit recommendations to complete it. A policy will be completed and disseminated this year.	High	Moderate
3. Cash collections are handled by personnel not responsible for recording revenue.	Some City divisions are minimally staffed, which makes it difficult to maintain sufficient segregation of duties related to cash handling. As an example, while there are some mitigating controls in place, the Revenue Collection Supervisor occasionally participates in the counting of currency and coin within the Counting Room due to staffing shortages or scheduling issues. Additionally, employees responsible for meter revenue collection participate in the counting of meter revenue for similar reasons. At the Animal Shelter, the person who records revenue also performs some cash collection. The Animal Shelter is trying to add another staff member to allow for segregation of these duties.	Provide departmental management with training on appropriate internal controls and fraud prevention. This training should include how to mitigate risks when faced with limited staffing. For example, risk mitigation can include consistent revenue reconciliation by a party outside of the revenue collection process. Where possible, and warranted by other workload and capacity issues, the City should consider hiring additional staff to resolve segregation of duty issues.	Management will look further into this issue and ensure that duties are segregated properly. Finance has already implemented a process where someone outside the Counting Room (Senior Administrative Analyst in Administration Division) reconciles on a weekly basis the meter collections with reports from the IPS meter software. Also, BBB staff reconciles the amount of fare box revenue counted with their fare box reporting system.	High	Moderate

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
	The staff member at the Parking Office who is responsible for counting all cash also performs some cash collection. The Parking Officer also serves as backup for one of the counter staff, covering lunch and breaks each day, as well as any vacation time.				
4. Items with cash value are stored securely and inventory is monitored.	<p>Some items with cash value are not properly safeguarded from misappropriation or theft, not reconciled frequently against transaction records, or inventoried periodically.</p> <p>These processes are not consistently occurring throughout the City. During the day some permits are kept at the desks of counter staff. The remaining permits are stored in a cabinet within the office. During our observation, this cabinet was not locked. The issuance of permits is also not tracked in a manner that would detect errors or inappropriate issuance or use of permits. For example, the number of permits ordered is not compared to the number of permits issued, and permits are not issued in sequential order or periodically reconciled with transactional records.</p>	<p>Lock cabinets that contain items with cash value and store the keys in a secure location. Issue permits in sequential order.</p> <p>Explore options with vendors of both eTIMS and POS to develop solutions that would allow reconciliation of permits. In the meantime, manually reconcile permits by recording the sequential number of a permit issued at the start and end of a day. Reconcile the number of permits issued each day with the number of permit transactions conducted per eTIMS or the POS system. The number of permit orders should also be compared to the number of permits issued on periodic basis.</p>	Management agrees with the recommendation.	High	Moderate
5. Cash is transported for deposit in a secure manner.	Cash for deposit is not transported securely, may be a liability for the City, and could potentially negate any bonding protections.	The Finance Department should work with applicable departments to determine the most economical, safe, and secure manner in which to transfer deposits to either the Finance Department or the bank.	Management agrees with the recommendation. Finance has already taken steps in this regard. For example, an armored transport pickup was implemented at City Hall for all departments located there. A more citywide approach will be considered.	Moderate	High

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>6. Counting room procedures are adhered to consistently.</p>	<p>Some existing Counting Room procedures are not being followed. For example, employees that work in the Counting Room are to leave all personal belongings in lockers outside of the Counting Room and, upon entering the Counting Room, put on pocket-less smocks. While the employees observed working in the Counting Room were diligent in their duties, it was observed that one smock did have pockets and that one employee regularly removes his smock from the Counting Room,</p>	<p>Ensure Counting Room employees follow all Counting Room procedures through periodic reminders and training.</p>	<p>Management agrees with the recommendation and will provide training.</p>	<p>Moderate</p>	<p>Moderate</p>
<p>7. All security features of the Counting Room are operational.</p>	<p>Security monitoring systems meant to provide staff with visibility of visitors to the Counting Room prior to granting them entry are inoperable.</p> <p>A closed circuit television monitor within the Counting Room, connected to a camera posted outside the main entry door, is intended to show employees working within the windowless Counting Room when someone is outside awaiting entry. However, the closed circuit television monitor and camera system are currently inoperable. According to Counting Room employees, the monitor has not worked for some time. Employees within the Counting Room only have a small square window within the interior door to see down a hallway to an exterior door, with another small square window, to attempt to see who may be trying to enter the Counting Room before admitting them.</p>	<p>The Assistant City Treasurer should work with ISD to restore the internal closed circuit monitor within the Counting Room back to its full function and use.</p> <p>Incorporate process into Counting Room procedures for Counting Room staff to report inoperable equipment, including how to escalate issues to Department of Finance management if not promptly resolved.</p>	<p>Management agrees with the recommendation and will ensure that repairs are made.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>8. The number of days that cash receipts are not in the custody of the City's bank is minimized.</p>	<p>Cash from the various City locations is not being deposited timely. The City has over 50 remote sites that collect cash. While these sites should be depositing the cash received daily, this is not occurring at some sites. The more days cash receipts are not in the custody of the bank, the more susceptible they are to misappropriation.</p>	<p>Increase training regarding proper cash techniques for departments that handle cash receipts. Implement monitoring of departments' handling cash receipts and define and institute consequences for not following procedures.</p>	<p>Management agrees with the recommendation. Staff will be conducting training to all affected staff once cash handling policies and procedures are completed, and will be considering staff duties to ensure that procedures are followed despite staffing constraints.</p>	<p>Moderate</p>	<p>Moderate</p>
<p>9. Cash controls at remote collection sites are periodically monitored and tested.</p>	<p>For the remote cash collection sites observed, there are varying levels of internal controls in place, and there is a lack of internal controls in place for segregation of duties, reconciliation processes, and review and approval of adjustments (e.g., immediate restrictive endorsement of checks). As an example, within the CCS Administrative Division, checks are not restrictively endorsed immediately, and they are stored in an unlocked desk drawer until deposit. Further, credit card information is stored in an unlocked file drawer and kept indefinitely.</p>	<p>Implement a process to periodically monitor and test controls at remote cash collection sites, such as on-site audits (observations) of cash handling procedures, surprise counts of tills, and inspection of the contents of safes. When inadequate controls are identified through these tests of controls at remote collection sites, initiate appropriate follow-up and resolution.</p>	<p>Management agrees with the recommendation. Staff has already provided stamps for restrictive endorsing of checks to offices that did not have one. CCS Administration is now storing credit cards and checks in a locked cabinet.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>10. Segregation of duties is maintained between those employees that collect payments, prepare deposits, and maintain/alter transactional records.</p>	<p>Lack of proper segregation of duties exists in the handling of cash. Employees that collect cash should not be solely responsible for preparing the deposit and/or able to change transaction records. Maintaining appropriate segregation of duties is a preventative control against fraud and human error. However, it is not always practical to have complete segregation of duties due to resource limitations. In these instances, mitigating controls, such as access limitations within IT systems, the performance of a reconciliation, and secondary review, can reduce risk.</p> <p>From survey responses, it appears that appropriate segregation of duties and mitigating controls are not consistently in place throughout the City. For example, cash and check transactions within the Clover Park office are overseen and reconciled by one person. Staff members can also alter invoice amounts and accept payments for invoices at the counter, over the phone, by Internet, or by mail.</p>	<p>The Community Recreation Division should evaluate its current processes for the collection of payments, preparation of deposits, and maintenance/alteration of ActiveNet data to determine if appropriate segregation of duties is maintained.</p>	<p>Management agrees with the recommendation. Community Recreation staff does have a number of checks and balances in place to mitigate risk. For example, the Activenet system has several user profiles, based on employees' responsibilities, that segregate access to certain tasks or approvals; someone that can register a participant for a class and accept money cannot void the same transaction. Also, the division has a thorough "how to" for preparing deposits and the supervisor reviews every deposit, reconciling them each month with the City's financial system. This is a time-consuming process but it ensures that all funds are being accounted for and recorded properly to Finance. Staff will continue to look for opportunities to further segregate duties.</p>	<p>Moderate</p>	<p>Moderate</p>
<p>11. The City has a robust cashiering system that interfaces with its financial system.</p>	<p>The cashiering system does not meet the City's needs in terms of functionality and number of locations. The City only has its centralized Point of Sale (POS) system at three physical locations. However, there are more than 50 locations in the City that collect cash. The system itself is not robust enough to meet the City's needs. Additionally, it does not have a cashiering module that interfaces with the City's current financial system.</p>	<p>City Management should work with ISD to include a POS system in the requirements for a new financial management system. This POS system must be deployable at all locations and interface with the financial management system.</p> <p>Develop a plan for comprehensive deployment of a new cashiering system at revenue collecting locations.</p>	<p>Management agrees with the recommendation. The new ERP system to be implemented has a cashiering module that will be considered. However, the large number of third party software packages that departments use as part of their business practices makes it difficult to find a cashiering system that can handle the necessary interfaces to all these systems. Staff will continue to work on this issue.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>12. The use of contractors to collect revenue on the City's behalf is monitored (Fire).</p>	<p>The City does not perform reconciliations of processing performed by AmeriCare to ensure reporting is complete, valid, and accurate. The City's contracted ambulance biller, AmeriCare, processes invoices, receives payments, and remits revenue to the City. While the Fire Department receives reports from AmeriCare, no reconciliation is performed to ensure that information is accurate. For example, the Department does not verify if the amounts billed, revenue received, total number of Advanced Life Support (ALS) runs, and the revenue received is complete and accurate.</p>	<p>The Fire Department should perform reconciliations between the reports it receives from AmeriCare on a monthly basis and its own records. There are information systems in use within the Fire Department that capture data regarding ALS runs that can be used for such reconciliation, but staff have had difficulty generating custom reports. ISD should be enlisted to assist in generating these reports if needed. In the meantime, staff can use hard copy EMS forms to verify the completeness of AmeriCare's reports and audit a sample of invoices, payments, and remittances to the City each month.</p>	<p>Management agrees with the recommendation.</p>	<p>Moderate</p>	<p>Moderate</p>
<p>13. Customers are invoiced in a timely manner following the provision of service or delivery of goods.</p>	<p>For some services, invoices are not being sent immediately following the provision of goods or services by the City, and/or they are not being collected when past due. In some instances, this is due to complex rate structures (Swim Center). In other instances, there is not a clear explanation for why past due AR is not being followed-up on promptly, such as for airport hangar rentals. The roles and responsibilities for collection on past due accounts are not clear within departments.</p> <p>Sending out invoices 45 days following a service being rendered, like pool space rental, increases the likelihood of non-payment. Furthermore, the longer an invoice is allowed to be past due without any collection efforts, the less likely the City will receive payment.</p>	<p>The Swim Center and Department of Finance should re-examine the current fee structure and method for invoicing regular groups to determine how invoices can be sent more frequently than on a quarterly basis.</p> <p>The Department of Finance should work with the Swim Center and Airport to develop a consistent process for collecting on past due accounts. The use of a service level agreement can help to clarify roles and responsibilities.</p>	<p>Management agrees with the recommendation. The Billing and Collections Unit in the Finance Department, a relatively new unit, is working on standardizing billing and collections processes throughout the City and developing a program whereby past due accounts are referred to collections. The Swim Center has been working with this Unit to set up a system to track invoices sent by the City and payments received, and the process has improved. Finance provides monthly reports to the department, and takes the lead in collecting past due amounts. In the event of nonpayment, the department has a clear course of action, which includes cancelling the user's permit. Staff agrees that billing user groups after the service leads to collections issues and will continue to look for an alternative approach.</p>	<p>Moderate</p>	<p>Low</p>

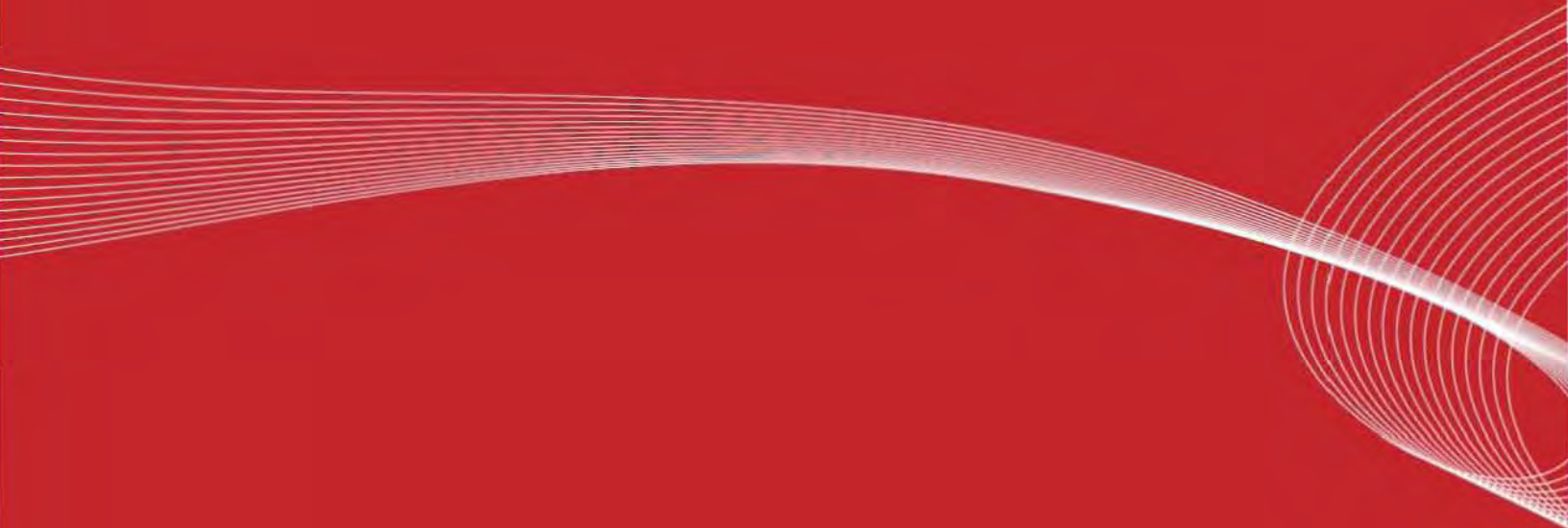
Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
14. Cash is stored securely.	Safeguarding of cash is not consistently performed across all cash-handling City departments, resulting in a risk of misappropriation for some departments.	Ensure all departments have the resources needed to store cash securely, such as access to safe and locked areas.	Management agrees with the recommendation.	Low	Moderate
15. Each cashier has their own cash till.	<p>Some of the sites for cash collections share cash tills. This increases the risk for misappropriation of cash.</p> <p>For example, multiple employees at the CCS Memorial Park location use one cash till, and multiple employees at the CCS tennis site use one cash drawer. Similarly, staff at the Parking Office share cash tills when covering employee breaks throughout the day.</p>	<p>Analyze if the risks associated with sharing cash tills in certain locations outweighs the cost of implementing procedures where each cashier has separate cash tills. This analysis should be reviewed and approved by management.</p> <p>Incorporate a process within the City's Cash Handling policy for exemptions to the policy to be reviewed by the Department of Finance and/or City Manager and approved. For example, if certain cash handling locations have determined that the cost of additional cash tills outweigh the benefit, and the locations have mitigating controls in place, departmental management of those locations should provide the Department of Finance with a memorandum detailing this analysis and need to deviate from the Cash Handling Policy. The Department of Finance and/or City Manager should then approve this deviation. The City can ensure that the risk of not complying with best practice and City policy is being appropriately analyzed, considered, and acknowledged by management.</p>	Management agrees with the recommendation. A new cash handling policy is being developed by the Finance Department and will be disseminated this year. A review of Memorial Park operations, including cash handling procedures, will be a first priority for the new Community Recreation Manager starting in April.	Low	Moderate

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
F. Accounts Receivable					
<p>1. All of the City's accounts receivable is recorded in the City's accounts receivable system.</p>	<p>The Department of Finance is unable to ensure that it has a complete record of the City's receivables. The JD Edwards Accounts Receivable (AR) Module was never implemented. For this reason, some departmental AR is handled through the Department of Finance, while other departments manage their own AR, making it difficult to obtain a complete and accurate accounting of the entire City's AR. For example, the Farmer's Market and BBB use QuickBooks. The Police Department uses EnablePoint False Alarm Billing (FAB) to bill for false alarms. The Building and Safety Division, Civil Engineering, and Fire Department use PermitsPlus. In addition, the Fire Department uses an outside vendor, AmeriCare, for ambulance billing.</p> <p>The Department of Finance uses QuickBooks to invoice on behalf of the City. With AR recorded in multiple systems, all revenue received is not reconciled to receivables. Recognizing this issue, the Billing and Collections Administrator plans to post a request for proposal (RFP) for a more robust billing system in 2015.</p> <p>Without a full inventory of City AR, the City is likely not achieving complete revenue capture or collection on outstanding receivables.</p>	<p>The City is in the process of requesting proposals for a new financial system. The City should ensure that an AR module, with citywide billing functionality, is included in system requirements.</p> <p>The Billing and Collections Administrator should continue efforts to streamline and gain better control over citywide billing. This should include:</p> <ul style="list-style-type: none"> • Compiling a full inventory of City-wide AR processes and current AR. • Meeting with individual departmental management to discuss billing and collections best practices, as well as how the Department of Finance can service their billing and collection needs in the future. • Developing an AR trend report that is provided to the Director of Finance on a quarterly basis for monitoring. 	<p>Management agrees with the recommendation. The new ERP system will include an AR module. The Billing and Collections unit will complete standard policies and procedures during the next year.</p>	<p>High</p>	<p>High</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
2. The City-wide policy for billing and collection of accounts receivable is well-documented and current.	The citywide policy (Administrative Instruction) for billing and collection is over a decade old. Many departments do not have clear direction on how to handle aged receivables. If AR is to continue to be processed in a quasi-decentralized manner, then a well-documented, communicated, and enforced billing and collection policy is essential.	The Department of Finance should work with City Management to update the citywide billing and collections policy. This policy should provide managers guidance to develop and implement departmental and division policy for AR procedures that can ultimately lead to better revenue capture. In addition, the policy should include a requirement that departments consult with the Finance Department and ISD prior to purchasing any new software system for the management of billing, collections, and/or AR. See recommendation for <i>Revenue and Cash Collections - Control Objective #2</i> .	Management agrees with the recommendation. Staff is in the process of updating the citywide billing and collections policies and procedures.	Moderate	Moderate
G. City-wide and Departmental Policies & Procedures					
1. Policies are current, formally documented, and easily accessible to all employees.	Many of the City's Administrative Instructions related to key internal controls, such as cash handling and billings and collections, are outdated. See Control Issue and Recommendation for <i>Revenue and Cash Collections - Control Objectives #2</i> and <i>Accounts Receivable - Control Objectives #2</i> .	Review and update the City's Administrative Instructions to reflect current policies. For example, policies should be updated for Cash Handling and Billing and Collections.	Management agrees with the recommendation. The Finance Department has undertaken an effort to review and update the City's Administrative Instructions related to financial functions.	High	Moderate
2. Departmental policies, procedures, and processes should be formally documented, easily accessible by employees, and consistently followed.	The documentation and distribution of procedures and processes by the City is inconsistent. Finance has thorough Policies and Procedures for departments to follow for the City's budget process. In contrast, Finance has not provided departments with written guidance related to accounts payable.	Document departmental policies, procedures, and processes and update them in a timely manner. These should be centrally available and consistently followed.	Management agrees that a standard citywide procedure must be developed and disseminated to departments.	Low	Low

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
H. Training					
<p>1. Employees are provided relevant training to understand and adhere to internal controls and procedures. In addition, cross-training exists so in the event of turnover or absences, processes can continue.</p>	<p>While some training programs exist, there is not an adequate training program to ensure that employees are receiving the needed training to adequately perform their job duties and to understand the importance of internal controls and standardized processes. In addition, employees should be cross-trained to mitigate the impact of employee turnover or absences.</p>	<p>Develop training related to internal controls and fraud, waste, and abuse. This training should be delivered to employees upon hire and updated every other year.</p>	<p>Management agrees with the recommendation. Staff is in the process of developing an ethics training program that will be disseminated to staff. In addition, staff will be incorporating training related to employee termination procedures, timekeeping, cash handling, accounts payable and accounts receivable in the supervisory training program that is currently being developed.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Management Response	Likelihood of Occurrence	Impact of Occurrence
<p>2. Departments receive adequate training from the Finance Department to perform fiscal functions in a decentralized environment.</p>	<p>Training is insufficient to support the accurate and timely processing of decentralized accounting and finance activities. Many of the City's accounting and finance activities are performed by departments. For example, departments are responsible for their own budget requests. The Budget Division offers robust annual budget training and will even provide training on a one-on-one basis if needed. Moreover, the Budget Division has comprehensive written guidance for departments to follow. In contrast, there are other fiscal activities that departments perform with minimal training from the Finance Department. For example, departments enter and approve their own journal entries. However, the Finance Department does not routinely provide training to departments on how to correctly perform journal entries. Finance only provides training to department supervisors on an as-needed basis. Departments primarily depend on knowledge transfer between staff, as well as training provided by the vendor of the financial system. Without sufficient training in a decentralized environment, the City cannot ensure that fiscal activities are being performed adequately or consistently.</p>	<p>Identify gaps in existing fiscal training and develop a comprehensive fiscal training program for departments. One existing gap for which this type of training would be useful is departmental preparation, entry, and approval of journal entries.</p>	<p>Management agrees with the recommendation. The Finance Department initiated a training program last year that included sessions on budgeting, Accounts Payable year end processes, Procurement, and Accounting general ledger inquiries. Additional classes will be developed and conducted.</p>	<p>Low</p>	<p>Low</p>



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FINAL REPORT
CITY OF MODESTO
ENTERPRISE RISK ASSESSMENT

March 10, 2015

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I. EXECUTIVE SUMMARY

This risk assessment provides the City with a way to measure uncertainty related to manageable City functions and processes. For the purpose of this assessment, risk is defined as the uncertainty that could impair the City’s ability to achieve defined goals and plans. Risk is measured by the probability of negative events occurring, the significance of those events, and the impact such negative events could have on the City should they occur.

The enclosed enterprise risk assessment defines the City’s risk profile and ways to mitigate risks. In aggregate, the City’s overall risk level is gauged as being “moderate-to-high.” Eight of the seventeen factors evaluated have been gauged as having moderate-to-high or high levels of risk. For some factors, the City is well positioned to address risks in the near term. For other factors, the City will need to employ longer-term strategies. Mitigation actions are defined within this assessment to provide the City with strategies for strengthening performance delivery and reducing risk.

The following table identifies the seventeen risk factor categories evaluated in this assessment, along with the associated risk level and trajectory as of February 2015.

Risk Factor	Risk Level	Trajectory
A. Processes	Moderate	Flat
B. Capital Program	High	Increasing
C. Operations/Service Delivery	Moderate	Flat
D. Risk Management	Moderate-to-High	Flat
E. Management	Moderate	Decreasing
F. Organization and Staffing	High	Decreasing
G. Asset Management	High	Increasing
H. Internal Controls	Moderate	Flat
I. Funding and Economics	High	Flat
J. Human Resources	Moderate	Increasing
K. Governance	Low-to-Moderate	Flat
L. Technology	Moderate-to-High	Increasing
M. Compliance	High	Increasing
N. Procurement	Moderate	Flat
O. Accounting and Financial Reporting	Moderate	Flat
P. Fraud	Moderate	Flat
Q. Public Safety	High	Flat
Overall Risk Level	Moderate-to-High	Flat

It should be recognized that risk trajectory is decreasing for three of the factors, flat for nine factors, and increasing for five factors. Overall, these results indicate that the City is trending towards more certainty, not less. The remainder of this report covers the risk assessment approach and scope, assessment results, and management survey.

RISK MITIGATION STRATEGIES

For each risk area assessed, this report identifies strategies to mitigate, manage, or avoid future risks. Given the City’s revenue-constrained environment, the City should prioritize strategies that will have the highest impact on reducing overall risk levels. The areas rated as high risk in this study include:

- Capital Program
- Asset Management
- Compliance
- Funding and Economics
- Organization and Staffing
- Public Safety

The City’s high-risk areas are driven largely by an environment of limited resources. Capital program and asset management needs have increased in recent years, as investments in deferred maintenance have decreased. Likewise, an inability to invest in employee pay and benefits has contributed to high turnover across the organization, especially in public safety functions. Limited staffing and high turnover have, in turn, impacted the City’s ability to proactively address programs, services, and compliance reporting.

The risk mitigation strategies identified in this report range in cost and impact. The table below lists high-impact strategies with relatively low costs to implement and high-impact strategies requiring relatively significant investments for the City’s six high risk areas.

Risk Area	Low-Cost Strategies	Strategies Requiring Investment
Capital Program	<ul style="list-style-type: none"> • Prioritize capital needs according to the highest City risks. • Continue to strengthen a centralized, integrated approach to grant pursuit, management, and reporting to maximize attainment of grant funding. 	<ul style="list-style-type: none"> • Conduct a comprehensive facility and asset inventory to assess facility and infrastructure conditions, identify needs, and estimate costs to meet safety and service standards.
Asset Management	<ul style="list-style-type: none"> • Continue to pursue creative methods to secure funding and address resource constraints. • Adopt a risk-based approach to asset management. 	<ul style="list-style-type: none"> • Identify limitations of the CMMS and explore solutions to address them.

Risk Area	Low-Cost Strategies	Strategies Requiring Investment
Compliance	<ul style="list-style-type: none"> • Improve audit tracking, and establish a findings tracking system. • Define compliance duties in job descriptions. 	<ul style="list-style-type: none"> • Conduct high-impact audits and random testing. • Train key personnel regarding compliance.
Funding and Economics	<ul style="list-style-type: none"> • Aggressively pursue grants. • Assess the adequacy of current fees and charges. • Continue to utilize and expand 10-year financial forecast model. 	<ul style="list-style-type: none"> • Pursue new taxes, licenses, and fees to meet minimum service levels. • Utilize data analytics to identify untapped revenues (e.g., code enforcement).
Organization and Staffing	<ul style="list-style-type: none"> • Based on the results of the succession planning process, develop strategies to mitigate risks. • Continue to implement recommendations from the recently completed Organizational Assessment. 	<ul style="list-style-type: none"> • Implement recommendations from the recent compensation study. • Stabilize turnover through employee recognition programs and the establishment of incentives through a formal performance program.
Public Safety	<ul style="list-style-type: none"> • Aggressively seek federal funding, especially grants. 	<ul style="list-style-type: none"> • Pursue a definitive revenue game plan either via a successful tax measure in the fall campaign or other revenue sources.

II. PROJECT APPROACH AND SCOPE

This project was initiated to assess the City's overarching risk, and it was conducted under the direction of the City's Audit Committee. The process followed conventional Enterprise Risk Management (ERM) methodology as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and embraced by the Institute of Internal Auditors (IIA). The risk assessment process analyzed risk by evaluating 17 factors that define the City's business. Numerous business processes have been evaluated within each of the factors. The risk ratings for each of the 17 factors were aggregated to define an overarching risk level.

All City departments have been evaluated in the risk assessment. This assessment includes information from elected officials, City leadership, and department managers and supervisors. This project was conducted from October 2014 through February 2015.

The process followed in the risk assessment consisted of three primary phases of work, including 1) fact finding, 2) risk assessment, and 3) risk reporting. Fieldwork encompassed process walkthroughs, documentation review, interviews, and a web-based survey. Analysis included evaluation of the level of uncertainty associated with each factor, including the potential for impact on the City's business. Reporting entailed the development of draft and final deliverables, along with follow-up discussions with City management and presentation to the Audit Committee. The risk assessment is reported at a specific point in time, which is February 2015. Both the risk rating and trajectory are tied to this timing.

The risk assessment process relies on evidence obtained from City employees. By design, the assessment process required access to all department directors and many managers. Full disclosure of information has been assumed in this process. Input was obtained from over 50 employees, with representation from all City departments, through a combination of interviews and a web-based survey.

The risk analysis framework includes four risk elements:

- Risk Level – level of uncertainty
- Likelihood – probability of a negative event occurring
- Impact – level of significance should a negative event occur
- Risk Trajectory – direction of where risk is headed in the future

The aforementioned risk elements are industry standards and defined by COSO's ERM methodology, which is embraced by the IIA. This framework provides the City with a means to reduce risk. Condition, risk mitigation, and residual risk are also presented for each of the assessed factors. Residual risk is the potential exposure that remains after known risks have been mitigated through specific actions.

III. RISK ASSESSMENT

A. PROCESSES

Risk Level	Moderate
Likelihood	High
Impact	Moderate
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Identify, prioritize, and document the City's key processes. • Conduct “as-is” (existing) workflow evaluation. • Select workflow tool(s) to record, track, and maintain processes. • Define “to-be” (future) workflow, and evaluate gaps between existing and future processes. • Maintain formal, up-to-date documentation of new processes and procedures in an easy-to-maintain format and accessible location. • Train process owners regarding new and updated workflows. • Hold employees accountable to following processes. • Embed internal controls into processes where appropriate.
Potential Residual Risk (if risks are mitigated)	Moderate

Workflow processes comprise much of each department’s workload, including both formal and informal business practices. A number of these processes are said to be fragmented, inefficient, and lacking controls.

It is important to recognize that the City’s processes are comprised of both centralized and decentralized functions. Some of these processes and procedures are out-of-date and incomplete, and others are undocumented. For example, several departments reported a lack of a records retention policy, which places the City at risk of retaining too much, too little, or the wrong information. Departments also reported several processes that include redundancies or have unnecessary steps. Council agenda reports and utilities connection approvals were cited by multiple departments as taking too much time.

The performance evaluation process, which occurs quarterly for many employees, requires the relevant department director, as well as the HR Director to sign each evaluation, is time-consuming. As a result, all departments reported delays with performance evaluations. Several members of the City’s leadership team reported a skepticism that the time-consuming and frequent evaluations were taken seriously as a management tool.

A lack of up-to-date, streamlined, and well-documented processes impacts the City’s efficiency and effectiveness, operational consistency, and risk of losing institutional knowledge. The majority of departments reported at least some process deficiencies and lack of definition and corresponding documentation. Some areas warranting reengineering and documentation include:

- Performance evaluation
- Records management and retention
- Human resources and employment practices
- Council agenda reports
- Finance department procedures

Given recent personnel turnover and leadership departures, the City’s process knowledge base is partially at risk. Several departments reported that the lack of staff has impacted their ability to develop or update procedures. At the very least, this situation hinders the City’s ability to efficiently conduct its business. The assessment results indicate that much of the City’s institutional knowledge resides in the minds of process owners and leads, rather than in formal, up-to-date documentation.

B. CAPITAL PROGRAM

Risk Level	High
Likelihood	Moderate
Impact	High
Risk Trajectory	Increasing
Risk Mitigation	<ul style="list-style-type: none"> • Conduct a comprehensive facility and asset inventory to assess facility and infrastructure conditions, identify needs, and estimate costs to meet safety and service standards. • Prioritize capital needs according to the highest City risks. • Continue providing strong project management and oversight to the wastewater treatment plant project. • Continue to strengthen a centralized, integrated approach to grant pursuit, management, and reporting to maximize attainment of grant funding. • Conservatively forecast the ability to fund projects.
Potential Residual Risk (if risks are mitigated)	Moderate

Like other risk factors, the City’s capital program continues to be impacted by the recent recession. With some exceptions, there has been little to no proactive capital investment in programs funded by the General Fund since 2007. As a result, the City is now playing catch-up, undergoing reactive repairs and replacements of streetlights, roadways, high voltage circuits, and facilities.

The City is in the construction phase of a number of significant capital projects, including the tertiary wastewater treatment plant (WWTP) and one major roadway project (Pelandale Avenue and Highway 99 interchange). The WWTP, budgeted at \$130 million, is one of the largest capital projects ever undertaken by the City. This project involves a number of risks, only some of which can be reasonably mitigated by the City. For example, the City faces reputational risks associated with the prospect of significant overages in budget or schedule. Another example is technology risk associated with updating the SCADA technology, introducing new technologies to the City, and addressing more complex requirements around a computerized maintenance management system (CMMS).

The City's Capital Improvement Program is developed by a task force led by the Community and Economic Development Director. The task force is comprised of five department heads and five community members, who evaluate projects on criteria ranging from operational efficiency, value to the community, and health and safety impacts. This process is a best practice and is acknowledged to work well for the City. However, funds are severely limited, especially for General Fund project. As a result, the City has a large amount of outstanding capital needs, including:

- Facilities and infrastructure improvements for ADA compliance
- Pavement condition
- Facilities, especially fire stations
- Fleet, especially police and fire vehicles

The City's ADA Plan is currently being updated. The Plan enumerates deficiencies and solutions for addressing them. The City faces potential accessibility complaints until the plan is completed to correct deficiencies.

Routine maintenance was cut at fire stations, and the Department has been lagging in maintenance of roofing and paint. Further, one of the fire stations is 75 years old and does not meet seismic standards for a public safety building, which poses a risk to firefighters' safety. The City and the Department are in the process of looking at property for a replacement station, but capital funding is a roadblock. In February, the Council dedicated \$400,000 toward repairs and maintenance at fire stations, to address the highest deferred maintenance needs.

Within Parks Planning and Development (PPD), there is a significant amount of deferred maintenance. For example, the City's irrigation system is wasting water. As a result, the City is unable to meet state mandates for water reduction. Playground equipment needs to be replaced to meet current safety standards, and PPD is working with community neighborhood groups to jointly seek funding. When necessary, PPD may address the safety concern removing equipment, grinding down the sidewalk, or removing dangerous items. The City has earmarked \$100,000 in funds to match community donations through the Park Partners program.

Refer to the Asset Management section of this report for additional information on the backlog of asset maintenance and replacement needs of the City.

C. OPERATIONS/SERVICE DELIVERY

Risk Level	Moderate
Likelihood	High
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Complete development and update of SOPs for all non-public safety departments and mission critical processes. • Purchase a new maintenance management system. • Develop succession plans for all management and key programmatic positions. • Complete maintenance management programs for all City equipment, facilities, and infrastructure.
Potential Residual Risk (if risks are mitigated)	Low

The City is facing numerous operational and service delivery challenges resulting from substantial reductions to its programs, services, staffing, and employee compensation as a result of approximately \$21 million in general fund cuts between the FY 08-09 and FY 14-15 budgets. Additionally, the City has reduced its overall workforce by approximately 15%, from 1,375 in FY 08-09 to 1,162 in FY 14-15.

While some revenue sources have begun to recover, the City’s proposed sales tax measure was the only one to fail in California in 2013. The City recently developed a ten-year financial forecast model that predicts sales tax revenues to recover about four percent per year. However, these revenues are not expected to keep pace with General Fund expenditures, particularly if the City aims to restore services, including meeting public safety needs that were cut during the recession.

Staff reductions and budget limitations have created numerous operational and service delivery risks. Operations were ranked as the second-highest risk by survey respondents. The primary operational risk is the loss of institutional knowledge of procedures, programs, and services as a result of employee cuts and turnover. For example, as described in the Public Safety section of this report, turnover in the Police Department has decreased the average years of experience for officers in leadership positions, and limited cross-training opportunities within the department.

The City’s inability to invest in technology infrastructure has also impacted service delivery. For example, the maintenance management system is over 20 years old and has been infrequently updated. The system is not equipped for electronic work orders, resulting in Utilities and Public Works staff relying on paper work orders, redundant data entry, and significant drive time to and from the dispatch site.

Recessionary cuts have significantly impacted the ability of Public Works to meet desired levels of service. During the recession, the City cut back on roadway and tree maintenance, which has resulted in deteriorating conditions and increasing maintenance backlogs.

D. RISK MANAGEMENT

Risk Level	Moderate-to-High
Likelihood	Moderate
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Develop a citywide risk management policy, and more effectively integrate risk management activities across the City. • Establish key injury and incident metrics and report quarterly to the Senior Executive Team. • Increase City participation in emergency preparedness through the Stanislaus County OAC. • Consider allocating additional resources to emergency preparedness, such as a full-time Emergency Preparedness position within the Fire Department whose responsibilities could be performing additional preparedness drills and overseeing the preparation of individual departments' plans and preparedness drills. • Require Senior Executive Team and key staff to participate in annual emergency preparedness drills/exercises organized by the Fire Department. • Explore creative solutions to limited training resources, such as collaborative risk avoidance and safety training efforts across departments. • Provide greater emphasis on workers' compensation claims adjustment.
Potential Residual Risk (if risks are mitigated)	Low-to-Moderate

The Risk Management Division was divided in 2010 with half of the staff and functions located in the Human Resources Department and half the staff in the City Manager's Office. Risk management functions include administration of the general liability, workers' compensation, safety, disability management and property programs. Risk also consults with departments regarding contract analysis and appropriate insurance coverage. Risk also represents the City in small claims court and assists in litigation oversight. The City's approach to risk management is hampered by the City's financial conditions. Due to the strain on resources, the City has adopted a reactive approach to risk.

The Risk Manager is responsible for program administration, coverage consultation, contract/insurance certificate review, and insurance procurement. The Risk Manager is supported by a 0.5 FTE Administrative Office Assistant 3 and a portion of the time of an Administrative Office Assistant 2. The City's General Liability program is administered by 1.5 FTE compared to a previous staffing level of three FTEs. Oversight of some key risk management responsibilities is no longer performed by the Risk Manager. For example, monitoring of third-party workers' compensation claims adjustments is the responsibility of the Risk and Loss Coordinator within HR rather than the City's Risk Manager.

The City may be at risk of missing opportunities to reduce costs due to inadequate oversight of the claims adjustment function related to the workers' compensation program. Workers' compensation remains one of the most significant opportunities to reduce risk exposure and associated costs. Based on an actuarial study conducted in November 2014, the City's liability for outstanding claims is estimated to be \$18,451,000 as of June 30, 2015. Greater emphasis on claims adjustments could have a significant return on investment.

There is no one position dedicated solely to Safety to focus on loss prevention activities, such as safety training oversight and work site safety. Instead, safety programs are primarily addressed at a departmental level. For example, due to the nature of its function, the Fire Department has its own training division and mitigates risk with its Safety Committee. Other departments with workers performing maintenance and operations tasks in the field, such as Streets, Parks Maintenance, Forestry and Wastewater, provide required OSHA training through tailgate meetings. A cross-departmental Safety Committee was established in 2013, and it has begun defining an enterprise safety program. However, because of resource limitations, departments are typically not able to provide safety training beyond the minimum requirements.

Without centralized oversight over safety training or additional resources at the departmental level, little proactive improvements are likely to occur until regulatory standards are adopted. Similarly, the Risk Manager tracks general liability claims using claims management software. The HR Department provides quarterly reports of incidents, injuries, and workers compensation claims to high-volume departments, such as Utilities, Public Works, Police, and Fire.

Incidents of regulatory non-compliance, including non-monetary sanctions, are not tracked centrally. Instead, the responsibility for compliance with laws and regulations is to the responsibility of the relevant departments. In a financially constrained environment, without centralized resources dedicated to adhering to compliance requirements, departments face competing priorities and may not dedicate adequate attention to compliance issues.

The City is revising the hazard communication procedure. Currently, employees must rely on the chain of command in their department to report concerns about risks. No alternative process exists for employees to report risks that they do not feel have been addressed by their department. For example, there is no email address where employees are directed to report risk concerns if they do not wish to report issues through their supervisor. In addition, the City's current risk investigation process does not facilitate continuous improvement through communications to departmental management.

Emergency preparedness is an additional component of risk management. The City has developed plans to prepare, respond, mitigate, and recover from local, national, and manmade disasters. There is an Emergency Operations Plan, Local Hazard Mitigation Plan, and Continuity of Operations Plan. The City also participates in the Stanislaus County Operational Area Council (OAC), whose purpose is to oversee disaster preparedness activities, including the preparation of emergency and disaster plans. From a training perspective, the Police and Fire Departments participate in annual drills organized by the Stanislaus County Office of Emergency Services. The Fire Department provides refresher training on the Emergency Operations Center to department heads on an as-needed basis. Each department is responsible for their own site safety plans and on site drills.

Decreases in budgets over the last several years and high turnover in staffing has made it challenging to provide training across all departments on emergency preparedness and the NIMS-ICS system. Additionally, the City does not have a dedicated full-time Emergency Preparedness position. Currently, these additional duties fall to the Fire Marshal.

E. MANAGEMENT

Risk Level	Moderate
Likelihood	Low
Impact	High
Risk Trajectory	Decreasing
Risk Mitigation	<ul style="list-style-type: none"> • Develop succession plans for all management and key programmatic positions. • Stabilize turnover through employee recognition programs and the establishment of incentives (e.g., promotions, training and other career development opportunities). • Implement recommendations from the recent compensation study.
Potential Residual Risk (if risks are mitigated)	Low

Nearly every position on the City’s Senior Executive Team (SET) of department directors has been vacated since 2011, including the City Manager in 2014 and Deputy City Manager in 2015. Of the ten City departments, only three department heads – Finance, Community and Economic Development, and the City Clerk – have not resigned in recent years. Leadership turnover and the lack of continuity in management positions significantly impacted staff morale. The City Manager position was filled with an interim consultant, and most department director positions were filled on an interim basis by managers within the department. This contributed to instability and uncertainty that resulted in the departure of a number of mid-level managers and supervisors. The significant amount of turnover at the executive and middle-management levels resulted in a substantial loss of institutional knowledge.

The City has also experienced difficulty recruiting and retaining qualified managers due to low compensation levels and reduced benefits compared to some neighboring municipalities. These challenges have led to instances of supervisors being promoted before they are prepared or a position remaining vacant for extended periods of time. Survey respondents rated management as the third-highest risk area to the City.

However, in the past year, the City has made a significant effort to fill leadership positions with qualified, permanent personnel. The City Council recently approved the appointment of two Deputy City Managers, and the City Manager appointed an Interim Director of Parks, Recreation, and Neighborhoods. The City has also completed a reorganization that structured departments to operate more efficiently and effectively and align reporting structures.

According to risk assessment interviews, the new leadership team is poised to have a significant stabilizing impact on City operations, bringing a renewed vision, energy, and improved morale. SET members and many managers report an improvement in morale since the new City Manager was appointed and department structures have solidified.

F. ORGANIZATION AND STAFFING

Risk Level	High
Likelihood	High
Impact	High
Risk Trajectory	Decreasing
Risk Mitigation	<ul style="list-style-type: none"> • Stabilize turnover through employee recognition programs and the establishment of incentives (e.g., promotions, training and other career development opportunities) through a formal performance program. • Implement recommendations from the recent compensation study. • Based on the results of the succession planning process, develop strategies to mitigate risks. • Continue to implement recommendations from the recently completed Organizational Assessment.
Potential Residual Risk (if risks are mitigated)	Low – Moderate

Organizational structure encompasses hierarchy, chain of command, span of control, and staffing levels. Staffing includes specific positions, counts, and capacity. The City’s organizational structure (9 departments and 4 offices) is mostly conventional by design, and much of it is defined in the City Charter and Municipal Code. The City recently completed an Organizational Assessment. Many of the recommendations from the assessment have been implemented, and others are still in progress. The City has experienced a high level of turnover in recent years, in part due to budget cuts. As shown in the table below, of the 1,035 current City employees, 28 percent have less than 5 years of service.

Years of Service	Employee Count	Percentage
Less than 1 year of service	67	6%
1 to 5 years of service	225	22%
6 to 10 years of service	261	25%
11 to 15 years of service	234	23%
16 to 20 years of service	133	13%
21 to 25 years of service	61	6%
26 to 30 years of service	43	4%
31 to 35 years of service	11	1%
More than 35 years of service	4	0%
Total	1035	100%

It is also important to acknowledge the stability reflected by the 48 percent of City employees who have between six and ten years of service and the 25 percent of employees who have over 15 years of service, with the majority of those employees having between 16 to 20 years of service. Human capital ranked highest among risk areas rated by survey respondents.

The City’s difficulty recruiting and retaining well-qualified employees is at least partially attributable to it’s the compensation package, which is reported to be 5 to 15 percent below market in the region. Some examples of the effects of the City’s less competitive compensation package include:

- A number of personnel have left City employment for other jurisdictions, citing compensation and benefits reasons. For instance, the Finance Department lost four employees in the last 1.5 years, all reporting higher pay as their reason for departure.
- The Building Division was unable to fill its Chief Building Official position following a nationwide search and eventually outsourced the position to a consultant.
- During a recent recruitment for an Associate Planner, the City only received ten applications and interviewed five candidates; in contrast. In contrast, the City of Turlock received 60 to 70 applications for a similar position.
- The recruitment of a Public Works Director resulted in an interim director, a consultant, another interim director, and an Acting Director who was finally designated permanent after 18 months of instability in the position.

In the past year, the City has addressed compensation in each department to better align compensation with neighboring municipalities. Nearly all compensation studies have been completed, with only the Fire Department remaining at the time of this study. In February, the Council approved \$700,000 in pay raises for City staff, as well as \$900,000 for retention bonuses and other incentives. The City engaged a consultant to address succession planning. The City has received a draft report identifying the positions, programs, and functions at risk. The next step is to develop strategies to mitigate risks.

G. ASSET MANAGEMENT

Risk Level	High
Likelihood	High
Impact	High
Risk Trajectory	Increasing
Risk Mitigation	<ul style="list-style-type: none"> • Identify limitations of the CMMS and explore solutions to address them. • Continue to pursue creative methods to secure funding and address resource constraints, such as Parks Planning and Development Division partnering with non-profits for additional parks funding. • Adopt a risk-based approach to asset management.
Potential Residual Risk (if risks are mitigated)	Moderate

Asset management includes the procurement, supply, deployment, and maintenance of City resources. Asset management focuses on the capital program and maintenance and repair of assets. Due to the City's financial constraints over the past several years, a significant amount of maintenance has not been performed and many of the City's assets and infrastructure are past their recommended useful life. This presents a financial and liability risk to the City, as routine maintenance almost always costs less than extraordinary or corrective maintenance or replacement. When routine maintenance is deferred, the life of an asset is shortened and infrastructure must be rebuilt or replaced earlier than expected. Due to the City's limited financial resources, the amount of deferred maintenance will likely continue to increase and conditions will likely continue to incrementally degrade.

The City has a computerized maintenance management system (CMMS), which it uses to track work orders and maintains information about assets. However, this system, CASSWORKS, is antiquated and attempts to replace it in recent years have been unsuccessful. Additionally, the system does not provide mobile access and it does not interface with other relevant systems, such as SCADA and GIS, which contain important asset and maintenance related information. Moreover, CASSWORKS requires maintenance staff to utilize a paper work order process that results in a lag time between data collection and entry. Not only does this compromise the quality and timeliness of the data contained in the system, but this process is inefficient and increases the chance of data entry errors.

A compelling example of the impact of deferring maintenance is the significant backlog that the City's roadways require. According to the City's Pavement Management System, an investment of \$100 million over 10 years would be required to address this backlog. Currently, the Streets Division does not have the resources to perform any of this work and is only able to address emergencies. The risks are partially exacerbated by factors external to the City given the elimination of State funding and the recent failure of the countywide transportation tax measure.

Other examples of the City's deferred maintenance needs include:

- **Forestry:** City trees should be pruned on a three to four year cycle. Because of decreasing staffing levels, the Forestry Division has had to gradually decrease the frequency of the cycle to every eight to nine years. In practice, trees are pruned even less frequently, every nine to twelve years. A lack of sufficient maintenance of trees and tree limbs causes property damage and tree limbs are the most frequent source of claims against the City. The City identified \$352,000 in carryover funds in February 2015 to address mistletoe.
- **High voltage circuits:** The City has a number of electrical cables which are old and bare. Occasionally, the cables become exposed, causing the ground to smoke and risking adjacent property damage. In February, the Council identified \$600,000 in carryover funds to address some of the \$10-14 million cost to repair or replace some high-voltage streetlights.
- **Fleet:** The City's current fleet maintenance facility does not meet ADA/OSHA standards. A new fleet maintenance facility is in the design phase, but is not yet fully funded. The Police Department raised its maximum fleet mileage to 125,000 miles. According to best practices, police vehicles should generally be replaced at 75,000 miles. Similarly, the Fire Department has not been able to replace its fire engines according to the designated schedule, and there are several engines that are more than 20 years old, with high mileage and engine hours and

lacking safety standards that have not been implemented yet, such as airbags, roll protection, and braking technology. Consequently, the City’s public safety fleet is less reliable, has more downtime, results in higher repair and maintenance costs, and poses a risk to officer and firefighter safety.

- Parks: A recent electrical short that occurred in the lighting at one of the City’s ball fields revealed that maintenance had not been performed for more than 20 years. Because the system had not been maintained for an extended period of time, the maintenance supervisor could not safely dispatch his crew to perform the work. Additionally, there is play equipment that needs to be replaced to meet current safety standards, but the City lacks sufficient funding. Without adequate funding and staffing to ensure ongoing safety monitoring and perform maintenance, the City may be forced to close some of its parks. Besides being politically unpopular, closing parks may have other negative consequences such as increased crime and decreased quality of life.

H. INTERNAL CONTROLS

Risk Level	Moderate
Likelihood	Low
Impact	Moderate
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Update the City’s Cash Handling Policy. • Provide cash handling training to those employees that handle cash as part of their job functions. • Within departments, prioritize the documentation of processes into formal procedures. • Assign an additional FTE to the City’s Payroll function. • Clarify the budget adjustment process as part of the Department of Finance’s overall update to its documented policies and procedures. Use these updated policies and procedures to provide City departments with guidance on how to properly submit appropriate budget adjustment documentation. • Develop and implement a risk-based a reconciliation and audit schedule. • Re-evaluate how payments are collected at the Permit Counter. For example, use a schedule to have one employee dedicated to receiving payment for a period of time each day and maintain an accurate record of who is handling cash. • Establish a transparent system for inventorying evidence within the Evidence and Property Facility to prevent the loss or disposition of evidence and ensure evidence is properly stored.
Potential Residual Risk (if risks are mitigated)	Low

Internal control is a process affected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the City's objectives with regard to the reliability of financial reporting, efficiency and effectiveness of operations, and compliance with applicable laws and regulations. Internal controls also safeguard the City's assets from unauthorized acquisition, use, or disposition.

Some examples of internal controls that need to be strengthened include:

- The City's cash handling policy is out of date, and there is no centralized cash handling training.
- Many departments have not written procedures or their procedures are out of date. Without written procedures, processes may be performed inconsistently, incompletely, or not at all. Additionally, the lack of procedures can also cause roles and responsibilities among departmental staff to be unclear.
- Two employees manage payroll for the City's 1,035 employees. Having only two employees managing payroll presents segregation of duty conflicts and can result in a loss of service should one employee be absent from work.
- The 200-300 budget adjustments submitted annually by departments to the Department of Finance are not always clear and may be applied inconsistently. Unclear documentation requires subjective determination of how to apply adjustments.
- As a result of budget cuts, the Finance Department is performing some reconciliation functions and audits less frequently than before. For example, the McHenry Tax Sharing Agreement between the County and cities was last audited six years ago. The performance of reconciliations and audits on a consistent basis ensures full revenue capture for the City and guards against errors, fraud, waste, and abuse.
- Staffing is inadequate at the evidence and property facility. It has been decreased from 7 to 2.5 FTE positions since 2008. About ten percent of the property stored at the facility is high-risk, including guns, drugs, and money. Due to the lack of staffing, items can be lost or disposed of improperly. For example, within the past few years, some guns have been mistakenly destroyed.

I. FUNDING AND ECONOMICS

Risk Level	High
Likelihood	Moderate
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Utilize data analytics to identify untapped revenues (e.g., code enforcement). • Aggressively pursue grants. • Assess the adequacy of current fees and charges. • Pursue new taxes, licenses, and fees to meet minimum service levels. • Continue to utilize and expand 10-year financial forecast model.
Potential Residual Risk (if risks are mitigated)	Moderate

Funding and economics is the root cause of many other risk factors the City faces. Workforce reductions, a decline in public safety spending, erosion in services, and an inability to invest in technology or training have all increased the City’s overall risk levels. Strengthening the City’s financial health is on the critical path to being able to address other risk factors. Last year, the City commissioned development of a 10-year financial forecasting model, which is a best practice in financial management. The forecast has been effectively utilized as a decision-making tool by City leadership.

Central to the City’s financial situation is the recent decline in revenues, which are down 15% since the City’s peak in FY 07-08. While General Fund revenues have stabilized, they have remained relatively flat since the recession began, from the FY 09-10 low of \$104 million to \$107 million in FY 14-15. As a result of lost revenues, the City has taken aggressive action to reduce expenditures, including workforce reductions, reduced pay and benefits, reduction in preventive maintenance activities, elimination of non-required training, and significant public safety cuts.

A benchmarking study conducted by the City in 2014 showed that the City’s sales tax rate, 7.63%, was in the 16th percentile statewide, and the second-lowest of benchmarked peers. A proposed sales tax ballot measure, Measure X, failed in 2013. Measure X funds would have provide funding to address several of the City’s highest risk areas, including rebuilding General Fund reserves; investing in preventive maintenance for forestry, transportation infrastructure, and fire stations; and providing significant public safety funding. As a result of the failure of Measure X, the FY 14-15 budget included additional cuts to services and programs, including:

- Public safety
- Worker’s compensation
- Position reductions through the City’s reorganization
- Surface transportation maintenance
- Modesto Centre Plaza

The City’s revenue forecast model projects revenues to improve 4% annually over the next 10 years, which will not meet existing obligations. Some anticipated significant increases to the City’s cost structure over the next decade include an increase in CalPERS contributions to 100% of the City’s funding obligation, at a cost of approximately \$43 million; significant deferred maintenance costs; and growth in personnel costs.

The City’s bond covenants require a General Fund reserve of at least \$7 million, or roughly 7%. Council policy has established an 8% reserve level, which was reduced to the minimum 7% beginning in FY 08-09 and continuing through the current fiscal year. The GFOA recommends that governments maintain a reserve of at least two months, or approximately 15%, of operating expenditures. The purpose of unrestricted reserves is to ensure adequate resources are available to address contingencies and unforeseen expenses.

J. HUMAN RESOURCES

Risk Level	Moderate
Likelihood	Moderate
Impact	Moderate
Risk Trajectory	Increasing
Risk Mitigation	<ul style="list-style-type: none"> • Update the City’s Personnel Administration Orders. • Document internal HR processes within formal, written, policies and procedures. • Increase transparency in HR matters through the development of a mechanism to share pertinent HR timeline and process information with City departments and employees. • Complete a full classification audit. • Continue to redevelop and introduce New Employee Orientation and automate more of the onboarding process by incorporating the use of the City’s existing systems. • Re-examine the City’s performance evaluation tool and process. • Streamline the discipline, termination, and investigation processes wherever possible, with attention to concluding investigations faster.
Potential Residual Risk (if risks are mitigated)	Low

The Human Resources (HR) Department focuses on functions that surround organization and staffing, including hiring and firing, compensation and benefits, talent management, training, culture, and risk management. Turnover within the HR department and Citywide has been high in recent years, and human capital ranked highest among risk areas rated by survey respondents. Like other internal services, HR has been forced by revenue and personnel constraints to operate in a reactive mode.

The primary area of risk for the HR Department is outdated Personnel Administration Orders (PAO). While the City Attorney is pursuing an update, there is currently no estimated time of completion. A lack of current, written policies can result in inconsistent treatment of City employees and lead to grievances. Additional risk issues within the HR function of the City, including:

- Internal HR procedures are not consistently documented. Without well-documented procedures, the department has difficulty training new employees and risks losing institutional knowledge during high staff turnover.
- Many HR processes remain largely manual and paper-based, including master employee records that support promotion, benefits, and retirement eligibility. The use of manual processes increases the risk of error.
- The employee performance evaluation tool is cumbersome and may not be utilized effectively, which could result in missed coaching and career development opportunities.
- The discipline and termination process is difficult and lengthy. The lack of expeditious disciplinary action undermines the City’s commitment to its own policies and fair employment practices.

K. GOVERNANCE

Risk Level	Low-Moderate
Likelihood	Low
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Establish, monitor, and regularly report on performance metrics aligned with the City’s Strategic Plan to provide an integrated focus for City management and operations. • Continue to work toward stabilization of the SET and other management positions within the City organization. • Continue to provide effective orientation to new Councilmembers to bring them up to speed as quickly as possible.
Potential Residual Risk (if risks are mitigated)	Low

Governance is defined to include oversight, policy, strategy, fiscal control, performance monitoring, risk management, and decision making. City governance is provided by the stakeholders involved in the public process and the practices followed. The City Council is the main body providing governance over City affairs. The City Manager is also involved in governance, as Modesto’s form of government is a strong Council/City Manager structure. Both the Council and City Manager provide governance oversight.

The composition of the City Council is fairly “new,” with only one member possessing more than four years of tenure. The tenure of the councilmembers, who serve four-year terms, is summarized below.

- Mayor, first elected 2012
- District 1, first elected 2011
- District 2, first elected 2013
- District 3, first elected 2007
- District 4, first elected 2013
- District 5, first elected 2013
- District 6, first elected 2011

It is noteworthy that two of the councilmembers whose current term expires in 2015 do not plan to run for reelection. If that is the case, then it will result in some loss of institutional knowledge and continuity on the City Council.

The Council appoints the City Manager, City Clerk, City Attorney, and City Auditor. These appointed positions and the other department directors form the City’s Senior Executive Team (SET). At the senior management level of the City, governance is stabilizing through recent hires to fill key vacancies within the SET as follows:

- City Manager, hired in 2014 after serving as interim City Manager
- Deputy City Managers (2), appointed in 2015
- Utilities Director, hired in 2014
- Public Works Director, hired in 2014 after serving as acting Director
- Parks, Recreation, and Neighborhoods Director, currently filled by interim PRN staff

The City recently developed its 2015-2018 Strategic Plan, and the City is pursuing a number of best practices relative to implementation that will lead to greater accountability and transparency. The City’s strategic initiatives are led by the Councilmembers, who take an active approach to plan implementation as “Priority Champions.” The City is also developing a slate of outcome-based performance measured tied to the objectives and strategies in the Strategic Plan that will support more effective governance.

L. TECHNOLOGY

Risk Level	Moderate-to-High
Likelihood	Moderate
Impact	Moderate-to-High
Risk Trajectory	Increasing
Risk Mitigation	<ul style="list-style-type: none"> • Develop a 3-5 year strategic technology plan that: <ul style="list-style-type: none"> ○ Prioritizes expenditures for replacing existing critical systems; ○ Accounts for adoption of newer technologies that could pay for themselves through increased efficiencies; and ○ Establishes a technology vision and helps to translate the business objectives of the City into technology projects designed to support and move the City closer to achieving those objectives. • Consider performing a Total Cost of Ownership assessment of Oracle to determine whether it is the best fit for the City over the long-term. • Conduct a full scale IT security analysis. • Develop an eGovernment policy and strategy that leverages technology, including social media, to connect with citizens, businesses, and visitors.
Potential Residual Risk (if risks are mitigated)	Moderate

The IT Department generally operates according to best practice. The Department is currently in the process of identifying and addressing technology risks, including reassessing replacement requirements for servers and software. The IT Department maintains networks to the required standards. The City’s servers are backed up and there is redundancy for technology both in IT and departments.

However, the City lacks a comprehensive strategic technology plan that communicates how IT and technology in general will be utilized to support the overarching mission, vision, and goals of the City as a whole. Adopting a strategic technology plan ensures that limited resources are applied most effectively to citywide needs. In addition, there is room for improvement relative to certain systems and software, primarily due to resource constraints. Examples include:

- When the Planning Division’s color copier broke, a replacement could not be purchased.
- Public Safety radio infrastructure is on a very old operating system, has some reliability and range issues, and needs to be replaced.
- The Fire Department utilizes a manual, paper-based system for scheduling. On a daily basis scheduling takes two captains and a battalion chief at least 30 minutes each. Moreover, this manual system introduces risks of human error and the potential for paying additional overtime.

- Maintenance functions across the City utilize paper work orders. If mobile field technology were in place, staff could enter data one time rather than recording data on paper and later performing data entry, which is inefficient and presents both timeliness and accuracy risks.

The City has adopted a Tier 1 system (Oracle) as its financial ERP system. This type of a system can be very configurable to meet the needs of the departments across the City, but it can also be cumbersome to support and maintain and requires skill sets that can be expensive to attract and retain. Further, all new systems that are introduced to the City must be assessed as to whether they need to be integrated with Oracle, which may guide the City towards more expensive systems from the onset, thereby driving up the costs.

The City’s largest technology risk is the aging CMMS, which is a critical system for proper operation of critical assets, including key infrastructure components and the new wastewater treatment facility. The CMMS has not been regularly updated and is currently unsupported by the vendor. The system poses multiple risks, including lack of data available for regulatory compliance, lower efficiency, and higher cost of operations.

M. COMPLIANCE

Risk Level	High
Likelihood	High
Impact	Moderate – High
Risk Trajectory	Increasing
Risk Mitigation	<ul style="list-style-type: none"> • Improve audit tracking, and establish a findings tracking system. • Define compliance duties in job descriptions. • Conduct high-impact audits and random testing. • Train key personnel regarding compliance.
Potential Residual Risk (if risks are mitigated)	Moderate

This risk factor focuses on the City’s compliance with laws and regulations. Legal and regulatory requirements pertain to many departments and functions citywide, such as:

- Federal and state environmental laws and regulations;
- ADA requirements; and
- Grant requirements.

Overseeing proactive compliance throughout the City depends primarily on individual departments, while the Risk Manager, internal auditor, and external auditors reactively evaluate compliance. Proactive compliance is characterized by employees being aware of requirements and actively operating to comply with them. Performed effectively, proactive compliance prevents issues from occurring before they become problematic. Reactive compliance involves ongoing monitoring, testing, and reporting.

As a result of the City's limited resources, the City and its departments have focused most of its efforts on reactive compliance rather than proactive compliance. Additionally, without allocating adequate resources to a centralized function to track and monitor compliance efforts, City leadership may not be fully informed of all relevant compliance issues which could result in costs to the City due to audit findings, lost funding, litigation, and monetary fines. Examples of compliance risks include:

- **Water quality:** The City has long-standing water quality concerns regarding arsenic levels. Because of the drought, the increased concentration of contaminants has increased concerns about meeting EPA standards. Although some improvements have been made, such as the purchase of a new software system to better track water samples, inadequate resources present a significant risk to the City. The single analyst responsible for monitoring water quality samples is out on leave. Although the analyst was able to assemble a manual prior to going on leave, the City did not have a person designated or trained as backup for this function. Given widespread impact of water quality throughout the City, current practices may place the City at risk.
- **ADA requirements:** Numerous sidewalks, curbs, and parks facilities are not compliant with ADA requirements. While efforts to identify ADA compliance needs are underway, funds to make improvements have yet to be secured. Identification of non-compliance without real improvement plans can lead to further compliance problems.
- **Grant requirements:** Leveraging available grant funding is critical in the City's current resource-constrained situation. However, limited staffing impacts the City's ability to secure grant funding and comply with grant requirements. Similarly, departmental staff may not have sufficient training or knowledge to comply with specific grant requirements. In addition, reduced staffing levels could result in the inability to utilize grant funding within the performance period and, thus, risk having to return grant money. The City does not have centralized grant oversight or a position that can provide support and expertise to departments.
- **Employment laws:** The City's costliest legal cases to date have resulted from violations of employment laws. However, incidents continue to occur and raise concerns about the adequacy of the City's training regarding employment laws.
- **Wastewater discharge and overflow regulations:** The wastewater treatment plant is out of compliance with current regulations. The tertiary treatment plant, currently under construction, should address these issues.
- **Statewide water mandates:** The City's irrigation system used at many parks is outdated and wastes significant water. As a result, the City does not meet the State's mandates for water reduction.
- **Public Records Act and HIPAA:** The City does not have a record retention schedule, and it has not updated its record retention policy since 1995. The City Clerk has not purged records, nor has it advised departments to do so. As a result, the City may be at risk of storing files that could become discoverable through litigation that should have been destroyed as part of a routine document retention schedule. Similarly, without an updated records retention policy, the City increases the risk of the City breaching privacy laws, particularly HIPAA, which was adopted after the records policy was last updated.

N. PROCUREMENT

Risk Level	Moderate
Likelihood	Low
Impact	Low
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> Establish and use a central vendor tracking database for insurance compliance needs.
Potential Residual Risk (if risks are mitigated)	Low

The Purchasing Division’s purpose is to maintain continuity of services and supplies to support service delivery by City departments. The Purchasing Division’s goal is to obtain the best overall value to the City, consistent with the quality and quantity required. Like other internal services, the City’s Purchasing Division, with only three full-time staff members in addition to the Director, struggles to meet citywide demands. Despite resource limitations, the Purchasing Department is generally reported to be responsive to departmental needs.

Some procurement functions are decentralized, which presents a greater risk of errors, fraud, waste, and abuse. Each department is responsible for their own insurance requirements, as well as ensuring each contractor complies with them. Although there is capability for a central vendor tracking database within the City’s Oracle system, it is not being used.

O. ACCOUNTING AND FINANCIAL REPORTING

Risk Level	Moderate
Likelihood	Moderate
Impact	Moderate
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> Update the Finance Department’s policies and procedures. Provide City departments with training on key financial, accounting, and budgetary processes. Examine and streamline the accounts payable process to decrease the days between invoice receipt and payment. Analyze accounts receivables aging on a citywide basis. Revise the form used for applying for security and require a deposit. As soon as financially possible, add staff to allow for proactive financial management.
Potential Residual Risk (if risks are mitigated)	Low

The role of City accounting and financial functions in risk mitigation is to focus on scorekeeping and compliance by recording, classifying, summarizing, and reporting financial transactions. Financial reporting includes deliverables such as the Comprehensive Annual Financial Report (CAFR), monthly financials for budgetary comparison, and other compliance reports such as the City’s Single Audit.

Due to recent budgetary-related staff reductions, the Finance Department is not performing some reconciliation and audit functions as frequently as it did in the past. Instead, departmental staff is focused on performing the necessary and core functions of the Finance Department. As a result, the Department is not proactively ensuring full revenue capture, compliance, efficiency and effectiveness, and strong internal controls.

Notable areas for risk mitigation include:

- The Finance Department’s policies and procedures are not up-to-date and complete. Without current procedures, the Department may not perform its processes consistently and risks losing institutional knowledge during employee transitions.
- Without written policies and procedures, it is also more difficult for the Finance Department to provide other departments with guidance on accounting, financial, and budgetary issues. Some City departments reported that they do not receive sufficient guidance on accounting and financial matters.
- Without centralized vendor management, the City is not consolidating and coordinating vendor payments.
- It can take a significant amount of time for checks to be issued to vendors, which can result in fewer choices of vendors in the future.
- Groups that hire off-duty City Police for security do not have to pay a deposit and are not subject to a binding agreement. This has led to outstanding accounts receivable for security as many groups that require security are transient, such as the circus. It is more difficult to collect past due AR from transient entities.

P. FRAUD, WASTE, AND ABUSE

Risk Level	Moderate
Likelihood	Moderate
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Establish a fraud, waste, and abuse program, including a hotline and training for all City staff and leadership.
Potential Residual Risk (if risks are mitigated)	Low

City employees are entrusted with public funds and have a duty to use those funds economically, efficiently, effectively, and ethically. When City employees do not honor that obligation, it is imperative to identify and correct those actions. Fraud, waste, and abuse are defined as:

- *Fraud*: A dishonest and deliberate course of action that results in obtaining money, property, or an advantage to which City employees or an official committing the action would not be normally entitled.
- *Waste*: The needless, careless, or extravagant expenditure of City funds, incurring of unnecessary expenses, or mismanagement of City resources or property.
- *Abuse*: The intentional, wrongful, or improper use or destruction of City resources, or seriously improper practice that does not involve prosecutable fraud.

During the risk assessment process, employees and managers were interviewed regarding fraud, waste, and abuse. Generally, managers gave the City fairly high marks regarding awareness, accountability, and integrity. Likewise, a vast majority (92.3%) of survey respondents reported that the City was at a low or low-to-moderate level of risk associated with fraud, waste, and abuse, and ranked it the lowest of all risk factors. However, the City’s current revenue-constrained, low morale environment is a common fraud risk factor.

All City employees share the common purpose of serving the public and ensuring public funds are spent wisely. The work of the City should be conducted fairly, equitably, ethically, and transparently. Proactive steps must be taken to ensure community commitments and management objectives are met. It is important for employees to be provided a mechanism to voice concerns when they see or feel something is not right.

Q. PUBLIC SAFETY

Risk Level	High
Likelihood	High
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Pursue a definitive revenue game plan either via a successful tax measure in the fall campaign or other revenue sources. • Increase public awareness and understanding regarding the fall tax initiative. • Aggressively seek federal funding, especially grants.
Potential Residual Risk (if risks are mitigated)	Moderate

Current funding levels are not adequate to protect Modesto’s citizens, businesses, and assets at desired levels. Police and fire expenditures comprise approximately 70% of the City’s General Fund budget and have been significantly reduced due to the recession. Because revenues have not improved and are projected to remain flat, increases in public safety funding from existing sources are unlikely.

The City faces a variety of issues related to public safety:

- There have been ongoing water quality issues relating to the arsenic content in the City's water. If unresolved, this could pose a significant threat to public health and safety.
- The City has had a long history of street flooding, but the stormwater system is antiquated and cannot handle significant floods, which presents a risk to both property and public safety.
- There are a number of homeless encampments within the City, but Park Operations does not have sufficient staff to appropriately monitor these areas for dangerous items like broken glass and hypodermic needles.
- The City's unmaintained trees directly impact public safety, traffic, and road conditions.

Police

The City's Police Department struggles to maintain minimum required staffing levels. Factors contributing to staffing challenges include:

- Difficulty recruiting qualified candidates due to comparatively lower pay, higher retirement contributions, and higher crime in Modesto. A streamlined recruiting process has recently been developed to generate more candidates and hire more quickly.
- High overtime utilization creates concern about officer burnout. Tired officers are more likely to make mistakes, putting the City and the community at risk.
- Declining officer retention, which results in a less experienced police force.

As a result of limited resources, the City is focused on responding to the highest priority calls. For example, according to the Police Department, crimes like burglary can take hours to respond to and cannot be properly investigated, eroding public trust in the police. In addition, anticipated retirements in the command staff and less than five years of average experience for incoming lieutenants could present a succession challenge. An inexperienced command staff is less likely to strong leadership skills, institutional knowledge, and understanding of interdepartmental dynamics.

While overall crime in Modesto declined in 2014, the passage of Proposition 47 has begun to impact the City. Passed in November 2014, Prop 47 reduced many drug-related sentences from felonies to misdemeanors, and many inmates were released from jails across California. While it is too early to assess the full impact of Prop 47 on public safety in Modesto, police report that drug-related crimes have decreased, burglaries and thefts are increasing.

In February 2015, the City Council approved a labor agreement with the Modesto Police Officers Association that will raise pay by six percent and establish retention bonuses. These changes should help the City to retain and recruit officers.

Fire

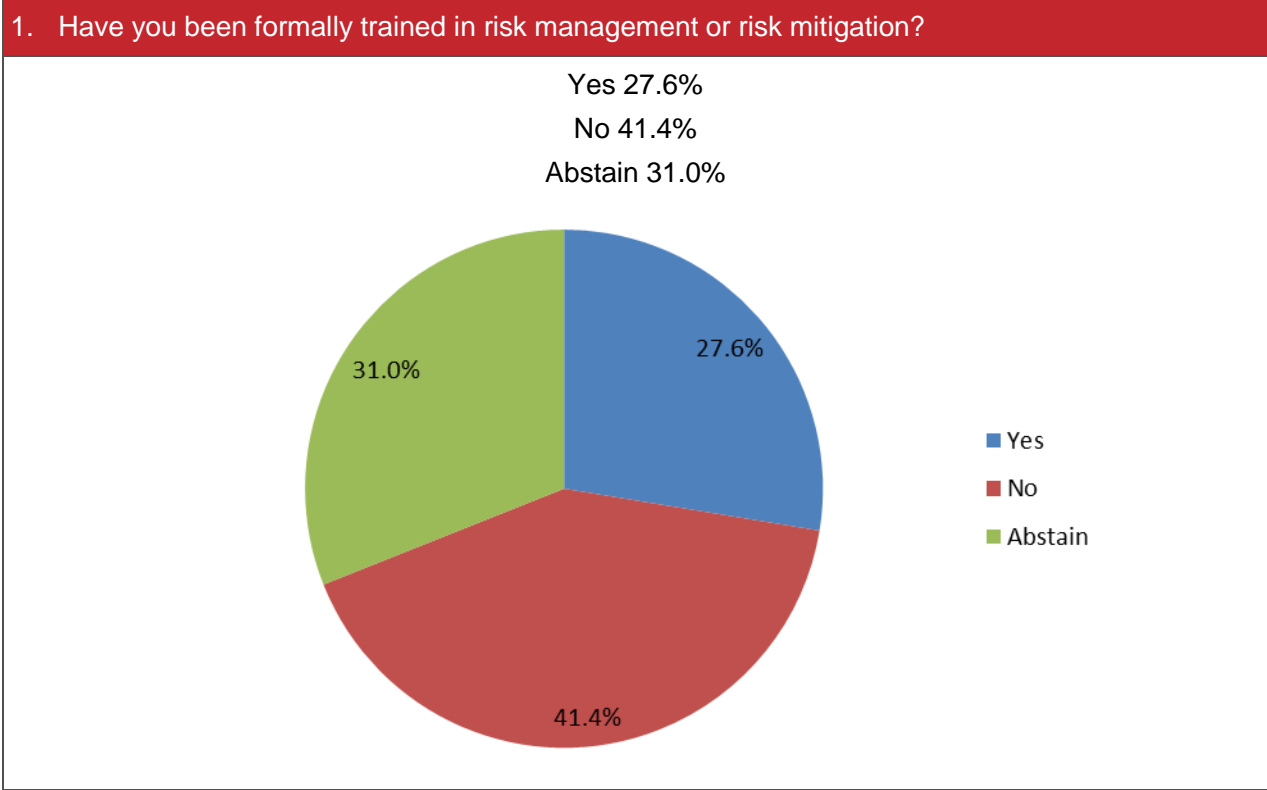
Like most City departments, the Fire Department works hard to operate effectively with limited resources. Based on the standards set forth by the National Fire Protection Association (NFPA), the

Department is understaffed by 66 firefighters. According to NFPA, there should be one firefighter per 1,000 population. Currently, there are 144 firefighters for a population of 210,000, or one firefighter per 1,458 residents. This level of staffing presents a number of challenges:

- Incident response times: The standard is having the first alarm on scene within 10 minutes or less 90% of the time, but the Department only meets this 60-70% of the time, falling well below the standard.
- Appropriately staffing responses to fires: The Department is currently able to send adequate response forces to scenes. However, if resources are reduced further, then the Department may not be able to send an adequate number of people.

In addition, the Fire Department is still in a state of transition resulting from change to a City department on July 1, 2014 after operating for three years under a regional agreement as the Modesto Regional Fire Authority. Dissolution of the Authority created further resource limitations, since the Department no longer has access to the more modern and more reliable engines it used under the Regional Fire Authority.

IV. SURVEY RESULTS



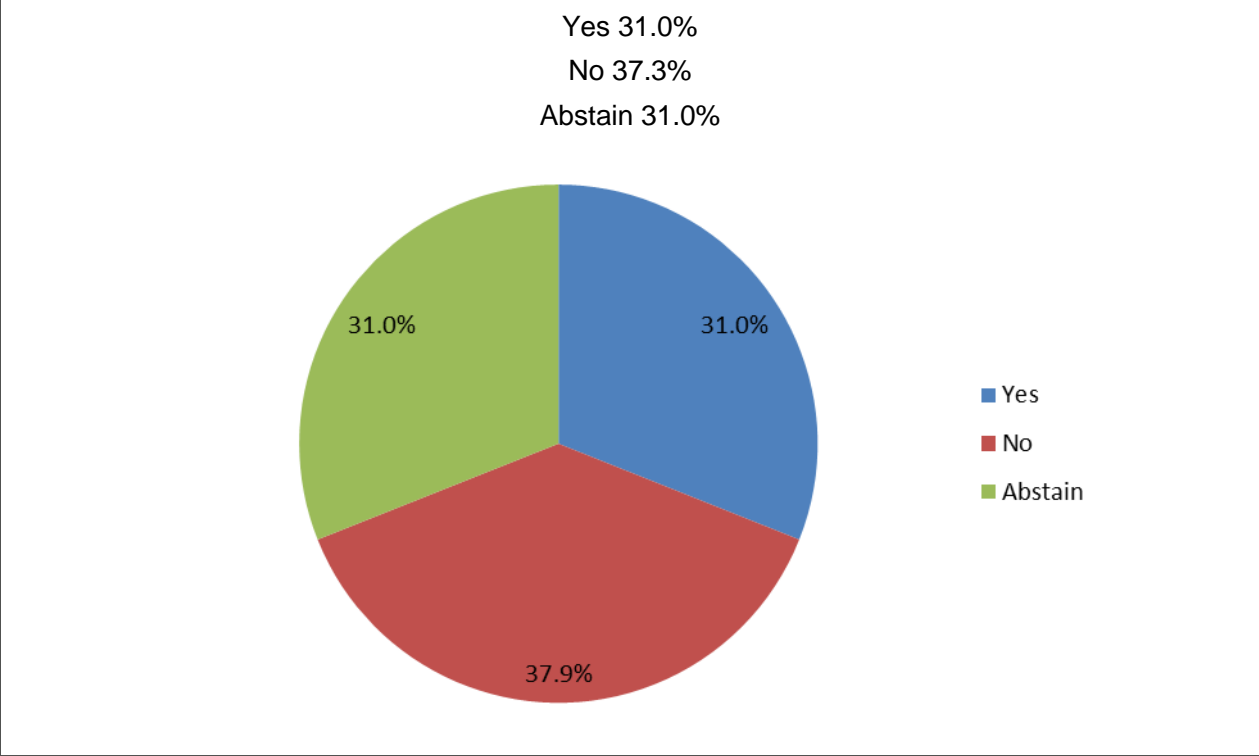
2. Who is directly responsible for risk management?

	Response Percent	Response Count
City Manager	48.3%	14
Department Manager	48.3%	14
Process Owners	27.6%	8
Department Leads	37.9%	11
None	0.0%	0
Other	48.3%	14

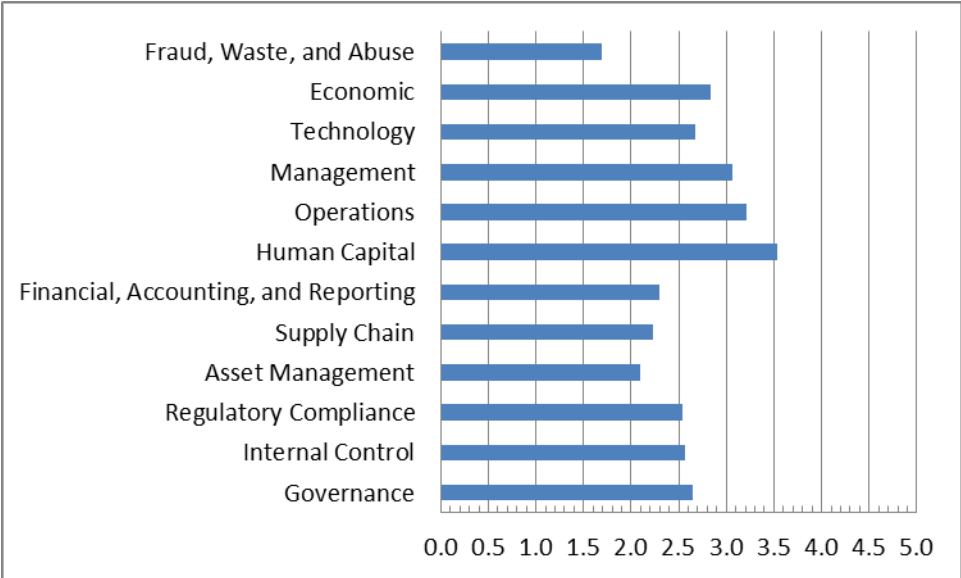
3. What formal processes, methodologies, and/or systems are in place to support risk management?

	Response Percent	Response Count
Policy Framework/Directives	51.7%	15
Risk Assessment	24.1%	7
Standards	31.0%	9
Ongoing Monitoring	24.1%	7
Processes	31.0%	9
Reporting	44.8%	13
Inspections/Testing	20.7%	6
Other	17.2%	5

4. Do you have specific risk management objectives?



1. Overall perceived risk

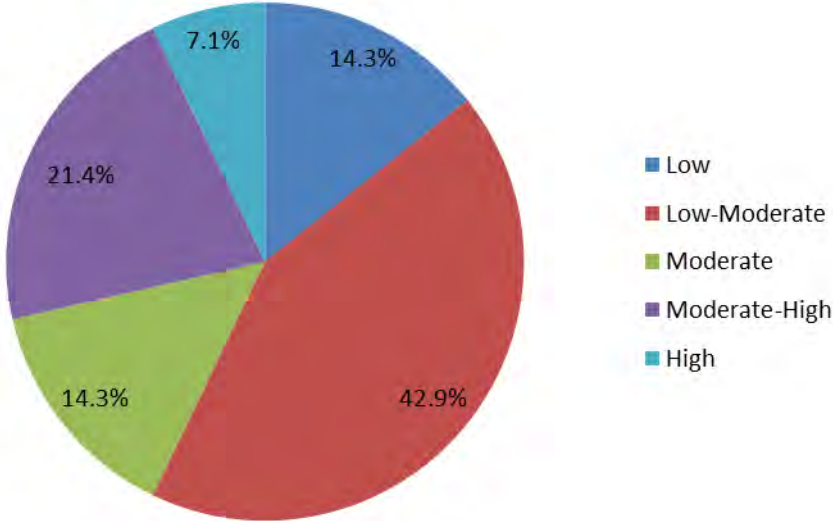


Average risk ratings:

Governance	2.64
Internal Control	2.57
Regulatory Compliance	2.54
Asset Management	2.09
Supply Chain	2.23
Financial, Accounting, and Reporting	2.30
Human Capital	3.54
Operations	3.21
Management	3.07
Technology	2.67
Economic	2.83
Fraud, Waste, and Abuse	1.69

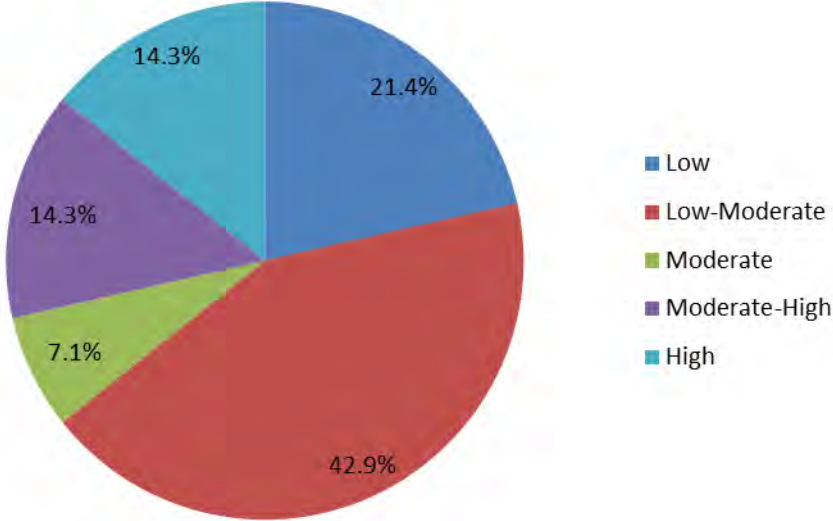
2. Governance

Risks associated with ongoing oversight, strategy, policy, direction, accountability, performance monitoring; and defined roles, responsibilities, and authorities.



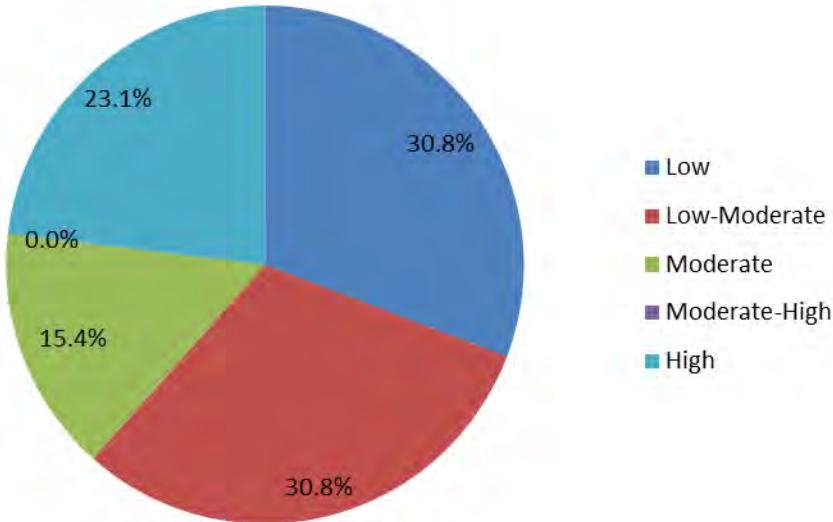
3. Internal Control

Risks associated with checks and balances, or internal control framework, including preventative and detective measures, testing, processes, documentation, audit trails, and procedures.



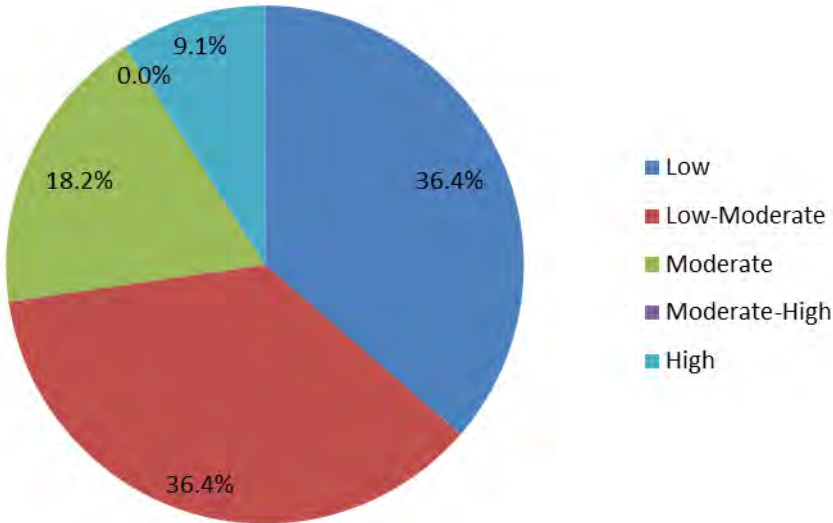
4. Regulatory Compliance

Risks associated with compliance with laws, regulations, and requirements, including grants.



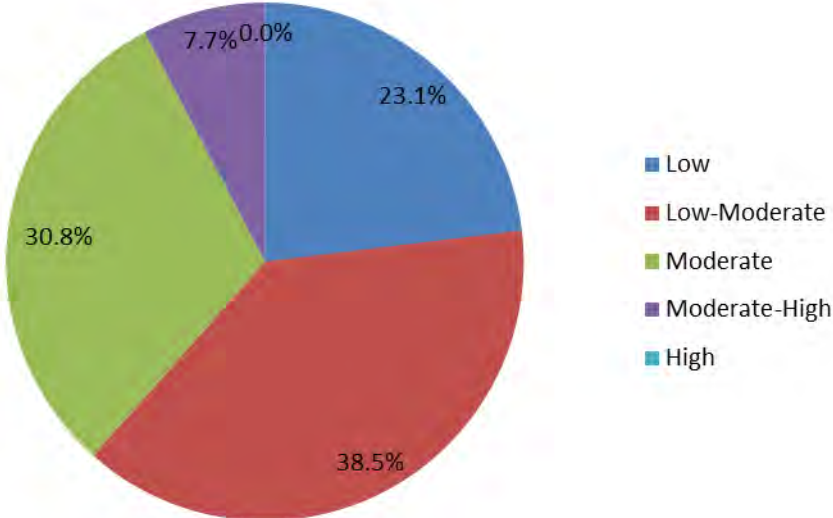
5. Asset Management

Risks associated with capital preservation, ongoing maintenance, management, tracking, reporting, accountability, accounting, physical safeguarding of assets, inventory, and capital projects.



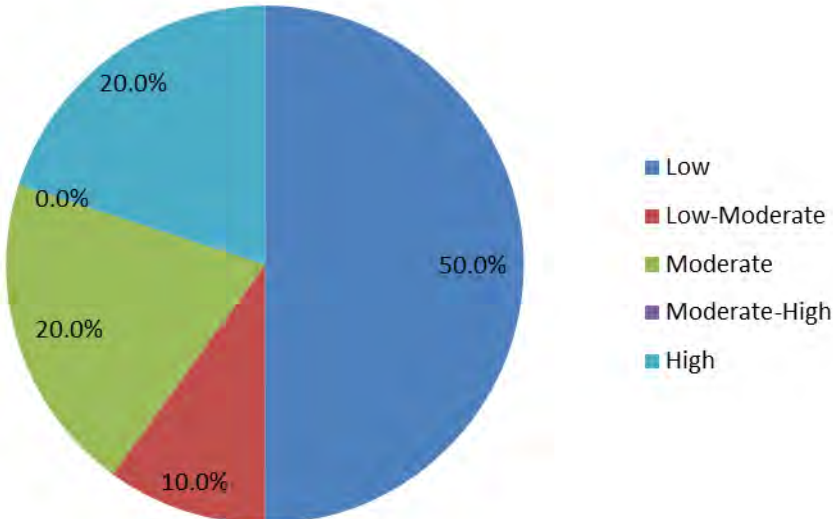
6. Supply Chain

Risks associated with contracts, goods and services, procurement, and controls.



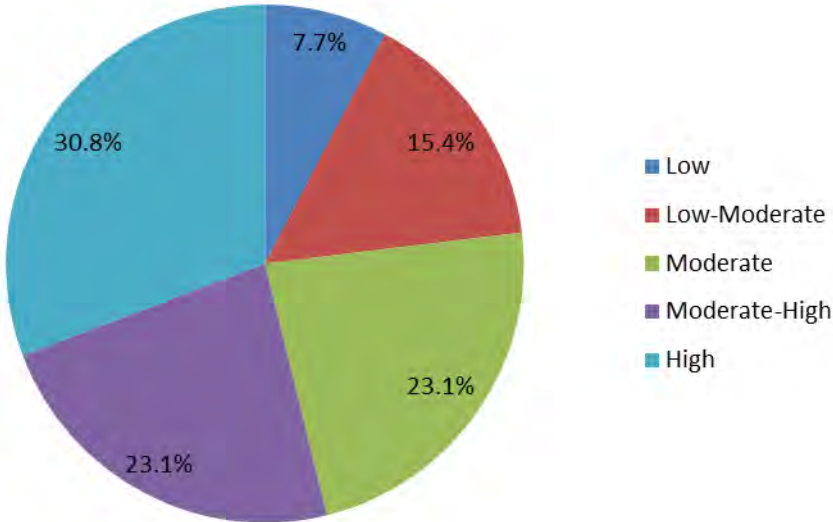
7. Financial, Accounting, and Reporting

Risks associated with fiscal control, financial statement processing, staff support, budgeting, ongoing information tracking and management, risk management, revenue capture, and transaction processing. Also, risks associated with content, distribution, assembly, utilization, frequency, formatting, accuracy, and reliability.



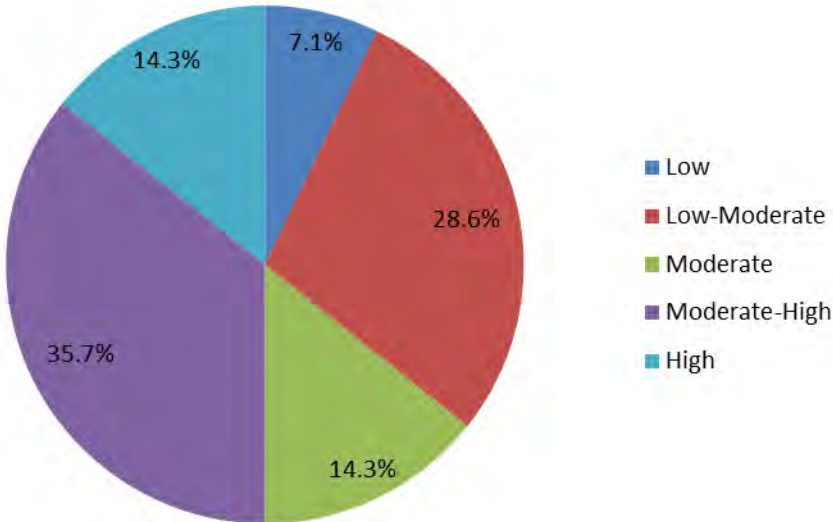
8. Human Capital

Risks associated with succession planning, labor management/contracts, capacity, performance, training, benefits, compliance, turnover, grievances, skill availability, compensation, overtime, resource availability, and communication.



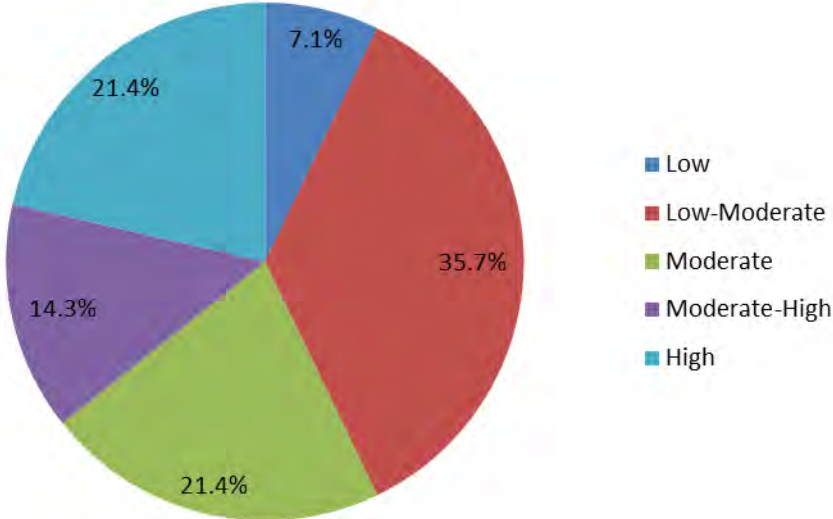
9. Operations

Risks associated with departmental mission, safety, scope, schedule, service delivery, sustainability, quality, training, resource allocation, and management.



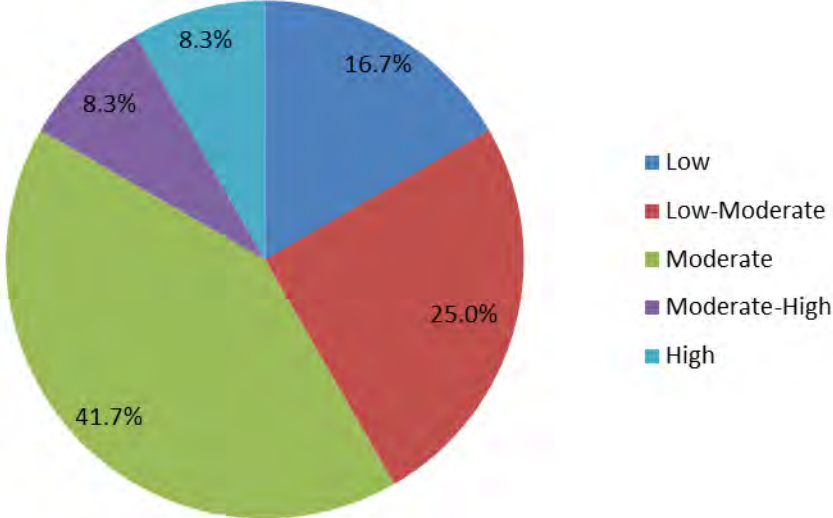
10. Management

Risks associated with planning, organization, empowerment, control, monitoring, follow-up, and delegation.



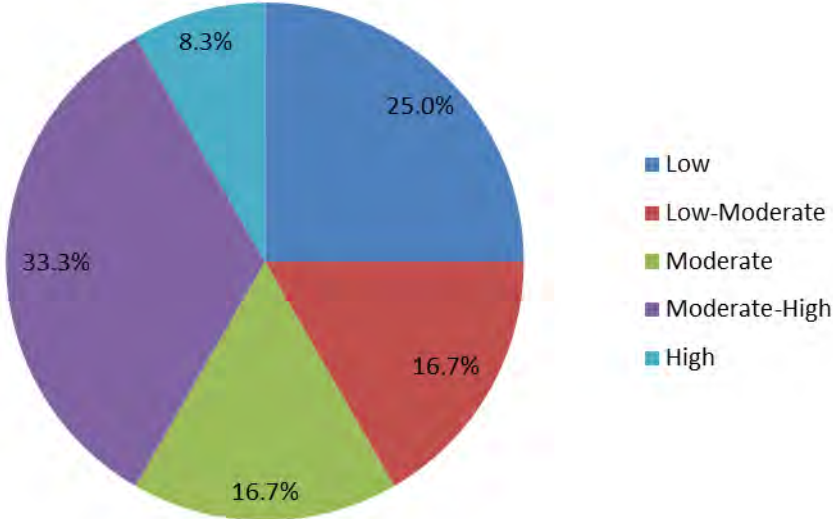
11. Technology

Risks associated with the design, development, implementation, administration, operations, and maintenance of systems including change management and system development life cycle. Also, performance, data architecture and management, integration, back-up, security, and controls.



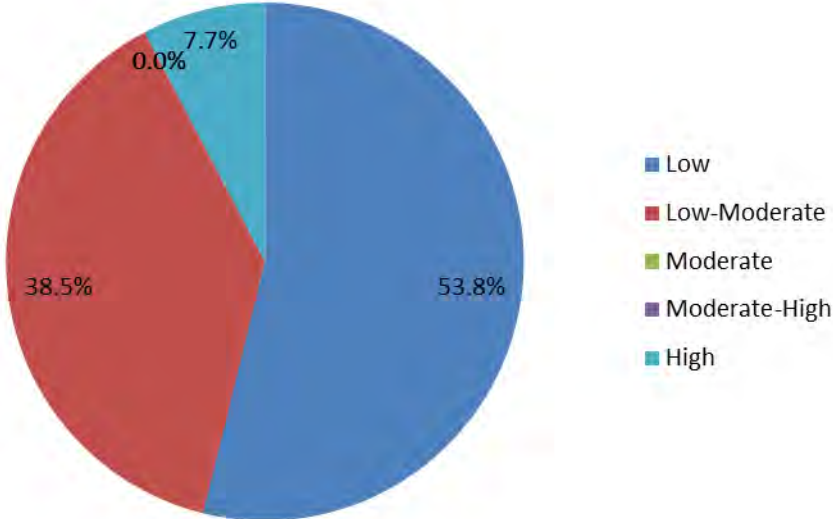
12. Economic

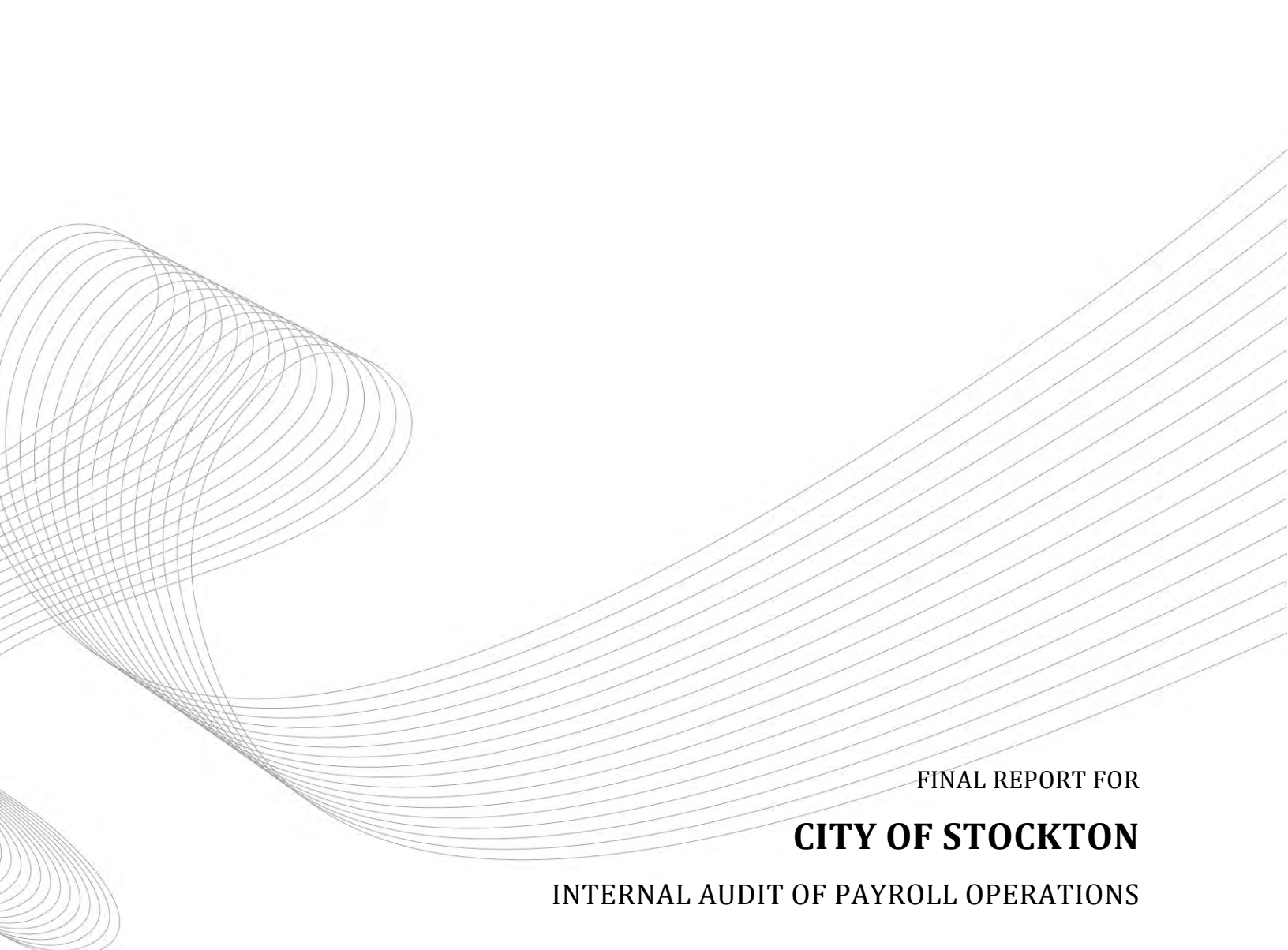
Risks associated with revenue sources (rates, fees, grants, and taxes), funding levels, cash management, liquidity, expenditure rates and commitments, debt management, and inter-governmental business.



13. Fraud, Waste, and Abuse

Risks associated with misappropriation of funds, extravagant spending, using one's position to accomplish a specific outcome, and/or the intent to deceive.





FINAL REPORT FOR
CITY OF STOCKTON
INTERNAL AUDIT OF PAYROLL OPERATIONS

April 4, 2014

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I. EXECUTIVE SUMMARY

Moss Adams, as the contracted internal auditors for the City of Stockton (the City), performed a review of the design and implementation of internal controls related to the payroll cycle. The review took place between November 2013 and March 2014 and focused on assessing select key payroll controls deemed important to protecting the City's assets and resources, and processing and reporting timely financial information.

The review of internal controls was completed under the consultancy standards of the American Institute of Certified Public Accountants (AICPA). As such, this work was not an audit of internal controls that resulted in a formal opinion or other form of assurance. Moss Adams reviewed the City's internal controls for design but did not test those controls for operating effectiveness, which is assumed to be a forthcoming activity to be performed once current findings have been corrected.

While the City has made progress in designing and implementing internal controls related to the payroll cycle since the internal control review issued on August 19, 2013, the City still has gaps in controls that need to be addressed to adequately prevent and detect errors, fraud, waste, and abuse.

The overall conclusion of this review is the City still has significant work to conduct in order to repair its control processes and procedures. Such work should be considered a priority and completed in phases over the next 6 to 12 months as City resources are made available.

II. SCOPE AND METHODOLOGY

The scope of our review was the City's current payroll and timekeeping internal control structure and operations as administered by the Payroll Unit of the Administrative Services Department, related employee data entry functions performed by the Human Resources Department, and timekeeping functions performed by City departments.

The methodology that Moss Adams followed to address the scope of work included interviews with personnel involved in payroll and timekeeping processing as well as employee information data entry within the Payroll Unit, Human Resources Department, and the following selected City departments:

- Payroll Unit of the Administrative Services Department
- Human Resources Department
- Fire Department
- Police Department
- Economic Development Department
- Recreation Division of the Community Services Department
- Public Works Department

Since certain parts of the City's payroll process are decentralized, we selected multiple departments throughout the City for observation as part of our fieldwork. We selected those departments with a large number of employees and/or a more complex time reporting process.

To further address the scope of this review, our methodology included:

- Observation of the data entry of employee information, as well as payroll and timekeeping processes within each of the aforementioned sites;
- Review of relevant Administrative Directives, policies, and procedures;
- Examination of relevant documentation in support of select key internal controls;
- Observation of workflow processes to obtain an understanding of the characteristics of each relevant control activity (who performs it, how often it is designed to operate, whether it is designed to mitigate fraud, whether it is a manual or programmed (automated) control, and whether it is a preventive, detective, or corrective control);
- Assessment of the effectiveness of these internal controls to prevent, deter, detect, or correct errors, fraud, or abuse; and
- Development of recommendations to improve existing internal controls or develop necessary internal key controls.

III. FINDINGS AND RECOMMENDATIONS

1. Finding: Payroll staff is operating with limited resources and a lack of mid-level management.

Payroll is a significant expenditure for the City. Each semi-monthly pay period, the City processes an average of 1,500 paychecks. During a recent pay period within our review, payroll totaled \$4.9 million and each paycheck averaged \$2,750. An effective organizational structure with sufficient workforce is essential for a strong internal control environment and proper segregation of duties within the Payroll Unit. However, we found that the current organizational structure and workforce available to the Payroll Unit does not support a strong internal control environment or provide sufficient segregation of duties.

The Payroll Unit currently has three full-time equivalent positions and one temporary position. The temporary position is used equally between administrative duties within the accounts payable and the Payroll Unit and does not perform significant payroll process functions. Additionally, one of the full-time equivalent payroll positions currently dedicates approximately 50 percent of the time to accounts payable, effectively leaving two and one-half full-time equivalent positions processing payroll operations for the City. All of the full-time equivalent positions are staff-level positions.

Organizationally, the Payroll Unit lacks mid-level management as the payroll supervisor position remains vacant. While the payroll supervisor position remains vacant, payroll staff is currently performing transactions that should require supervisory review and approval. For example, all payroll employees may change employee pay, grades, and hours. This puts the City at risk for fraud.

At the time of our review, the Administrative Services Department was in the process of recruiting a payroll supervisor. Once the payroll supervisor is hired, as long as job duties are appropriately assigned and certain override transactions require supervisory review and approval, the resulting organizational structure of the Payroll Unit should be appropriate to maintain segregation of duties. We further address the current lack of segregation of duties within Finding 3 of this report.

Recommendation: The Administrative Services Department should finalize its recruitment of an experienced payroll services supervisor and ensure payroll staff is dedicated solely to payroll duties.

Administrative Services Department management indicated that it was in the process of recruiting an experienced payroll supervisor at the time of our review. Additionally, management stated that additional payroll training will be provided to Payroll Unit employees in the following budget year to help increase the division's overall expertise. While these are worthwhile improvements, we further recommend that management determine how to best allocate its departmental resources to ensure that payroll employees are fully dedicated to

payroll duties. If the Payroll Unit is not fully staffed or the current staff members continue to split their focus with other divisions, it will be difficult for the Payroll Unit's organizational structure to maintain a strong internal control environment with appropriate segregation of duties and mid-level supervisory review within the division itself.

2. Finding: The payroll office and confidential information within the payroll office is not always physically secure.

During our observation of payroll processes, we found that the payroll office and confidential information within the payroll office is not always physically secure. Although management indicates that the Payroll Unit will be moving to a more secure area of a different building in the future, due to the nature of the information that payroll employees handle, it is imperative that the payroll office is secure at all times. Payroll employees must discuss sensitive issues that the City has an obligation to keep private, such as wage garnishment due to child support or tax payments owed, salary adjustments, terminations, and promotions. Currently, there is a door between accounts payable and payroll that is left open at all times. Employees that should not be able to access payroll may do so by way of this door through the accounts payable division of accounting.

Payroll processing requires the City to possess confidential information about its employees. It is the City's responsibility to protect employees' confidential information. During our review, documents with confidential information were visible on payroll employees' desks. Due to their jobs, having these documents out for work purposes is necessary. However, payroll employees should keep confidential information in locked file cabinets at all times when not directly working with such information. Confidential information is at even greater risk of theft if the payroll office is not secure with unauthorized employees able to enter the office area.

Recommendation: The door between the payroll office and accounts payable should be secured at any time that the payroll office is not occupied, keys to the payroll office doors and locking file cabinets should be limited to authorized employees, and all confidential information should be stored in locked file cabinets when not directly being used for work purposes.

The door between the payroll office and accounts payable may be open during business hours for convenience, as a payroll employee performing administrative tasks sits in the walkway area. However, the door should be secured when the payroll office is not occupied and outside of work hours. During work hours, payroll staff within the payroll office should monitor persons in the payroll office to ensure that their presence is reasonable. When non-payroll employees are within the payroll offices, payroll employees should censor their conversations about sensitive information and remove confidential information from visible areas of their desks.

A key audit should be performed to ensure that only payroll employees and management within the Administrative Services Department that directly supervise the Payroll Unit have keys to the payroll office and its locking file cabinets. Following the audit, a key inventory should be maintained and kept up-to-date with a listing of all employees and each key possessed by each

employee. A procedure for granting, maintaining, and terminating key access to the payroll offices should be created and implemented immediately.

Payroll employees should keep all confidential documents within locked file cabinets when not directly working with the information and ensure that the payroll office area is not occupied by unauthorized employees when discussing confidential information. In the future, Administrative Services Department management should consider providing the Payroll Unit with a small private conference room within its new offices.

3. Finding: There is not sufficient segregation of duties or monitoring of employee pay entry within the Payroll Unit.

Currently, all payroll employees have system access to change employee pay, pay grades, and hours. Additionally, one employee can also change pay codes for special assignment pay. Prior to the preliminary check register review by Administrative Services Department management, there is no supervision of these changes, and the preliminary check register review is at too aggregate a level to notice moderate changes over time that may be inaccurate or unauthorized. Without segregation of these duties, the City is at risk of a single employee being able to increase any employee's hourly rate, salary, overtime rate, or special assignment pay. This weakness places the City's internal control environment at an increased risk of processing errors, fraud, and allegations of fraud.

To maintain sufficient segregation of duties, it is a best practice to segregate payroll authorizations (hiring, employee set-up, employee status change, termination, retirement, pay rate setting, and other payroll changes) from the preparation and processing of payroll records and checks. Currently, the Human Resources Department enters the majority of information for new employees or employee changes that affect pay or employee status within the Status/Position screens in the City's information system. However, the Human Resources Department does not currently enter any non-default base pay grade, special assignment pay, or overtime pay rate information within these screens. Instead, the Payroll Unit enters this information when it is not default information, such as when an employee is not starting at the first step of pay within a grade.

Recommendation: The Human Resources Department should enter all Status/Position data and Payroll Unit staff should no longer be able to modify this data.

Unfortunately, there is no way within the City's current information system to lock Payroll Unit employees out of individual fields within the Status/Position screens. For this reason, until the City procures a new information system or augments the current system, the Human Resources Department should enter all data within the Status/Position screens and Payroll Unit staff should have their ability to modify data within these screens removed. This will require Human Resources Department staff to begin entering non-default base pay, add pays, special assignment pay, overtime rates, and employment status changes. This may require the Human Resources Department to acquire an additional resource as these entries occur not just for new employees, but for existing employees as well, and in some cases, these entries require tracking.

Additional training may be necessary for the employee(s) within the Human Resources Department tasked with completing these processes.

4. Finding: Payroll procedures are not well documented.

Documenting procedures allows management and employees to clearly outline roles and responsibilities among staff, to perform tasks consistently, and to maintain sufficient internal controls. However, most payroll procedures are not well documented. Due to the lack of documented procedures, the interim payroll supervisor has to rely on the institutional knowledge of her staff, some available incomplete documentation of processes, and her own expertise. Formal written procedures help to ensure the transfer of institutional knowledge in times of employee turnover.

In addition to knowledge transfer, documented procedures provide guidance for implementing internal controls, a means to consistently perform procedures in a manner that adheres to established controls, and evidence to determine if those controls are operating effectively. Without formally documented procedures that train employees and hold them accountable, the Payroll Unit is less capable of ensuring that processes are being performed consistently, and employees are less confident in their duties.

Recommendation: Payroll Unit staff should formally document all payroll procedures as soon as possible.

5. Finding: The Payroll Unit is not fully reconciling information received from departments to ensure the City's record of employees is current and accurate.

Each pay period, the Payroll Unit provides each division/department with a current employee listing according to the City's information system. When the division/department submits time entry data for the pay period, it also returns the employee listing with notes as to any employees that are missing a time sheet for any reason. In some cases, division/departments are documenting on the employee listing that an employee no longer works for the City with additional notes including the date that paperwork was submitted to the Human Resources Department indicating employee termination. These differences between departmental and Payroll Unit/Human Resources Department records may be issues of timing but could also be indicative of an error in data entry, missing paperwork, or other issues in the employee data entry process.

Currently, the Payroll Unit is using these returned employee listings to organize division/department original timekeeping paperwork for scanning and is not reviewing the notes. By not reviewing the notes and investigating inaccuracies on the employee listing, the Payroll Unit is missing an opportunity for the employee listing to be a useful internal control. If payroll employees reviewed these notes and investigated discrepancies in conjunction with the Human Resources Department, the City would mitigate its risk of maintaining an inaccurate record of employees or continuing to pay employees that are no longer employed by the City.

Recommendation: Payroll Unit staff should review information received on the returned employee listing from divisions and departments each pay period and investigate issues, in conjunction with the Human Resources Department, to ensure the City's record of employees is current and accurate.

6. Finding: The Human Resources Department is not formally documenting modifications and clarifications to the City's payroll and time sheet policies and procedures.

While each department is different because some departments have different information systems, processes, and staffing needs, the City does have an Administrative Directive which details its policies and procedures for the completion of payroll and time sheets, (FIN-04). Additionally, the Human Resources Department meets at least quarterly with the Payroll Unit and those departmental staff members responsible for completing payroll tasks within its Payroll User Group, (PUG), to provide additional training regarding human resource-related topics that may affect payroll and time sheets. Often the PUG meetings result in clarified or modified payroll and time sheet procedures. Interpretations of directions from the PUG vary because information is not always communicated formally, in a written procedure, and may change frequently in response to legal considerations, among other issues. Often, information is shared in a verbal discussion during the meetings, through e-mail, or within a shared Intranet folder.

During our departmental observations, staff communicated that payroll and time sheet procedures change frequently and guidance from the PUG is not always clear. For example, some departmental staff are clearly reviewing, signing, and dating the Hours Proof report from the City's information system each pay period to signify that they have reviewed and verified that the time entered and transferred to central payroll for their employees is accurate in comparison to hard copy time sheets, while other employees are not marking the report at all to indicate review. Although FIN-04 does not dictate that the Hours Proof report need be signed, the PUG directed that it should be, according to departmental staff.

An informal, in-person, group meeting that brings together members from different departments with similar functions is an excellent way to share ideas, cross train, and build community. However, any resulting clarification and modification to payroll and time sheet policies and procedures should be formally documented and clearly communicated. Differences in general timekeeping processes throughout departments may lead to inconsistent application of procedures meant to ensure a strong internal control environment and may place the City at risk of inaccurate reporting, errors, and undetected fraud.

Recommendation: The Human Resources Department should formally document and clearly communicate any clarification or modification it makes to the City's payroll and time sheet policies and procedures.

7. Finding: The Human Resources Department's secondary review of new employee set-up or employee changes is not being documented.

Following data entry of a new employee or employee change into the City's information system by one Human Resources employee, another Human Resources employee reviews the data entered against hard copy documentation. However, the reviewing employee does not sign and date the Personnel Action Form to show that the data entry was reviewed.

Recommendation: The employee performing secondary review of new employee set-up or employee change data entry should initial and date the Personnel Action Form to document the completion of the review.

Formalizing the documentation of review ensures that the review is being performed consistently.

8. Finding: The Police Department is not maintaining a thorough record of employees' access levels within their timekeeping system (SETS).

The Police Department maintains a hard copy log book with the signatures of those employees that can approve overtime based on their rank. According to staff, this log book is the only record of which employees have approval authority within SETS. However, each employee's signature is not accompanied by a date and some of the signatures appear to be from employees who are no longer actively employed by the department.

Granting access to only those authorized to approve overtime within the timekeeping system is an integral internal control. Without a procedure in place for granting, maintaining, and terminating access to overtime approval, the Police Department does not know which of its current employees can actually approve overtime within the system at this time. Those that can approve overtime within SETS may be different than those employees that have signed a hard copy log book. If unauthorized employees are able to approve overtime, the City is at risk for employees receiving unearned pay.

Recommendation: The Police Department should obtain and audit a record of all persons with access to SETS and their associated access and approval rights within SETS. The Police Department should establish and implement a procedure for granting, maintaining, and terminating access to SETS that ensures employee access levels are appropriate to job duties at all times.

9. Finding: Many Fire Department employees are not signing off on time sheets until after time is transmitted to payroll for processing.

The time worked for many staff within the Fire Department's divisions is entered based on the schedule for the overall division, not on a per-employee basis by an individual employee. This is mostly due to the nature of shift work that employees perform and partially due to the Fire Department's timekeeping system set-up. Following timekeeping processing, the Fire Department's Office Specialist provides individual employees with time sheets to sign, which

reflect the time submitted to payroll for each employee during a pay period. The employee's signature on this time sheet signifies that the employee verified that the time the Office Specialist previously transferred through the City's information system to payroll is accurate.

The Office Specialist often does not receive these signed and verified time sheets back from employees until weeks after the pay period, making this an ineffective internal control. Without verification that time submitted to payroll is time actually worked, the City is at risk for paying employees inaccurately or for fraud. Additionally, the Fire Department and the Payroll Unit may expend resources correcting errors after the fact if employees are unable to notify them of changes to time worked until weeks after a pay period is completed.

Recommendation: Fire Department management should determine a process for staff to verify time worked is accurate prior to the Office Specialist transmitting time to central payroll.

At the time of our review, Fire Department management was seeking approval from the City Council to procure a new information system that would have the capability for shift-based scheduling and timekeeping. This system would allow for individual employees to approve their time in real-time and may eliminate this issue.

10. Finding: Fire Department staff has to manually change its internal time codes to agree with the City's time codes during the time sheet data transfer process.

The Fire Department's timekeeping database uses different time codes than those of the City's information system. For this reason, when the Fire Department's Office Specialist performs the data transfer between the department and the City, the employee must manually change the time codes in the midst of the data transfer. Having to manually change data increases the risk of errors.

Recommendation: The Fire Department should align its internal time codes within its database system to match the City's time codes.

At the time of our review, Fire Department management was seeking approval from the City Council to procure a new information system that would have the capability for shift-based scheduling and timekeeping. This new system would be more sophisticated than its current MS Access-based system. If the Fire Department does obtain this new system, it should work with the Payroll Unit and the Human Resources Department to ensure a streamlined data transfer with minimal manual changes necessary.

11. Finding: The Recreation Division of the Community Services Department is not using the employee listing process to communicate to the Payroll Unit which of its many part-time employees is inactive or no longer employed.

The Recreation Division of the Community Services Department employs many seasonal part-time employees. Some of these employees will be inactive for multiple seasons but will work for the City again, while others no longer work for the City. The division maintains its own database

of its part-time employees and their corresponding status. However, division employees are not utilizing the employee listing provided by the Payroll Unit each pay period to communicate changes in these employees' employment status. By not communicating if there are employees on the employee listing that it no longer employs, the Recreation Division is not providing the City with accurate information to update its records. Ensuring that the City's list of active employees is accurate is an important internal control that lowers the risk of the City mistakenly paying someone that is no longer an employee of the City.

Recommendation: The Recreation Division of the Community Services Department should reconcile the employee listing provided by the Payroll Unit against its internal database of part-time employees and provide feedback to the Payroll Unit.

Most other divisions/departments review the employee listing and provide feedback to the Payroll Unit each pay period. The Recreation Division of the Community Services Department should adhere to this practice as well, following an initial reconciliation that may be completed over the course of several weeks.

12. Finding: The Public Works Department's MS Access time tracking system was created and is managed by one person.

The time tracking system used by Public Works Department employees for time tracking was created in MS Access. The employee that created the time tracking system currently maintains and manages it. However, procedures for using and maintaining the system are not documented. Without cross-training other employees on how to manage, modify, and maintain the system, as well as documenting the related procedures, the department is at risk of not being able to use the system should this one employee be unavailable in the future for any reason.

Recommendation: The Public Works Department should cross-train at least one other employee on the management, modification, and maintenance of its time tracking system and document detailed procedures related to its operation immediately.



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