

**Review of Finance Department
Operations**
For the

City of 

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City of [REDACTED]

Review of Finance Department Operations

I. Objectives of Review

This review was performed for the City of [REDACTED] (the “City”) to evaluate the finance operations, efficiency and controls that we believe are of importance to management. The chief areas of focus were budget process policy and procedures and accounting processes, controls and procedures. We have included findings and recommendations, as well as the documentation of the major accounting processes that are likely to be of interest to the incoming Finance Director.

II. Project Scope and Approach

The procedures that we performed during the review were:

- Gathered and reviewed existing documentation, including:
 - Comprehensive annual financial reports
 - Budgets and related projection assumptions
 - Budget vs. actual monthly reports
 - Finance Committee meeting minutes
 - Accounting Department goals and objectives
 - Accounting and budget policies, procedures and forms
 - Organization charts
 - Chart of accounts
 - Trial balance as of June 30, 2011

- Developed project work plan and interview questions designed to gain an understanding of finance functions, responsibilities, deliverables, customer focus, training, historical concerns and efficiency

- Interviewed finance employees, representatives of operating departments, and members of senior management

- Identified and reviewed best practices

- Analyzed results of interviews and document reviews

- Developed recommendations and prepared draft report

- Reviewed results with City management

III. Overview of Finance Operations

The Finance Department is composed of 7.5 full-time equivalent employees who perform the following centralized functions: accounts receivable and cash receipts, payroll, utility billing, accounts payable, business license, investing, accounting and financial reporting, and budget.

Recently, new accounting pronouncements, new laws and regulations, and an increase in negotiated changes to employee compensation and benefits have increased the department's workload as follows:

- New accounting pronouncements – The Governmental Accounting Standards Board adopted pronouncements related to post-retirement benefits and fund balance reporting.
- Payroll changes – The City has negotiated new labor agreements across all bargaining units within the past several months. These changes have required an unusually high volume of changes to payroll.
- New laws and regulations – Changes in laws and regulations related to payroll, benefits and taxes are ongoing.
- The deteriorating state and local economy has caused an unprecedented slide in key local revenues (sales tax, property tax) requiring significant analysis and actions to balance the budget and preserve service levels.

The Finance Director will retire in November 2011 after holding the position since November 2003.

Following are the descriptions of the procedures followed by the City for each of the major business processes:

- Invoicing and Cash Receipts
- Payroll
- Purchasing
- Accounts Payable
- Business License
- Investments
- Accounting and Financial Reporting
- Budgeting

INVOICING AND CASH RECEIPTS

The accounts receivable and cash receipts process is administered by the Senior Account Technician, using the City's central accounting and financial reporting system ("Bi-Tech"). A Senior Account Clerk is responsible for invoicing.

Non-Utility Invoicing

Non-utility invoices are generated monthly. The Finance Department initiates recurring charges for retiree health insurance premiums, site leases, alarm charges, and deferred fee agreements. Departments' requests for invoices (often one-time) are transmitted to the Finance Department via the Accounts Receivable Processing Form.

Departments invoice directly for fees and reimbursements. For example, the Fire Department invoices directly for OES reimbursement; the Police Department initiates POST reimbursement requests, the Parks and Recreation Department initiates invoices for tree charges and Valero settlement installments.

Cash receipts are posted into Bi-Tech as collected. After all cash receipts are posted for the month, the Senior Account Clerk performs the following actions, using Bi-Tech:

- (1) Generate preliminary invoices already established on Bi-Tech (i.e., recurring)
- (2) Generate preliminary invoices from billing requests submitted via Accounts Receivable Processing Forms
- (3) Apply outstanding customer credits
- (4) Apply late fees where applicable (e.g., unpaid false alarm charges)
- (5) Print invoices
- (6) Mail invoices
- (7) Evaluate past due accounts; forward accounts over 90 days to collections

When an invoice is generated on Bi-Tech, the general ledger accounts receivable is automatically reduced and the designated revenue accounts increased. Invoices and reimbursement requests generated by departments are not integrated with Bi-Tech.

The Senior Account Technician periodically compares the general ledger accounts receivable control account to the accounts receivable subsystem detail, and resolves any discrepancies.

Utility Invoicing

Utility invoicing is centralized in the Finance Department, and is managed by an Account Technician. First level customer service and payment processing is conducted by the front counter staff. Since 2007, the City has been using the NorthStar system for its bi-monthly utility invoicing and customer account management. There are just under 10,000 accounts (residential, commercial and industrial) maintained on the NorthStar system.

Bi-monthly Invoicing Cycle

There are two bi-monthly residential invoicing cycles and two additional cycles for City properties. The residential schedules are staggered; approximately half of the 9,000 residential meters are invoiced each month.

Public Works staff spends approximately one week each month obtaining meter readings using hand-held meter reading devices. When the readings are complete, the devices are brought to the Finance Department. The Account Technician uploads the readings to the Itron system. The Account Technician reviews the readings for errors, and prepares a list of accounts for which repeat meter reads need to be performed. (Typically, errors occur in 0.7 percent of the reads.)

Next, the meter-reading information is transferred from the Itron system to NorthStar. The Account Technician uses the system's inquiry functions to perform a quality review to ensure that the meter reads have been properly transferred. Once again, she looks for accounts that require additional review or reading confirmation.

The NorthStar system is then used to calculate invoices for the subject invoicing cycle. These calculations are reviewed, with an emphasis on newly added accounts and rates, and to verify that accounts with no invoicing or unusually high dollar amounts are correct. The Account Technician makes any required changes or corrections.

Finally, the invoicing information is transferred securely, electronically to CSG, a service that is employed to generate and distribute customer invoices. The Account Technician receives a summary report from CSG for final review, reviews the actual invoices online and, upon her approval, CSG releases them. These invoices are distributed by mail or, when requested, electronically.

Invoice information is transferred from the NorthStar system to Bi-Tech using a customized system interface. The Account Technician regularly reviews and reconciles the general ledger control account to the receivables information maintained on the NorthStar System.

Payments are due approximately 35 days after they are prepared.

Delinquent Accounts

Accounts that have not been collected within 35 days are sent a seven day notice and are assessed a 10% penalty. The penalty can be waived as a courtesy on accounts that have historically been in good standing.

Accounts that do not respond to the first seven day notice are issued a five day shutoff notice which is delivered to both the mailing address and service address.

Turnoffs are typically scheduled on Tuesdays, to allow for Monday payments, and to allow time for the account holder to bring the account current prior to the end of the week.

Service Requests

Service requests include requests to add, change or discontinue service, as well as requests for on-site assistance with meter problems and other issues that require attention in the field. These requests are typically received from customers by phone or in person. The City representative uses the mCare workforce web-based application to generate service orders. These service orders are transmitted directly to Public Works field personnel each day, who use the mCare system to report the results upon completion of the work. The Account Technician reviews the completed items.

Maintenance of Rates

Water rates are based upon consumption (with flat rate minimum charges), and are established for several user categories, including residential, industrial, commercial, irrigation and municipal. Wastewater rates are flat for residential and based on either meter size or consumption for commercial users.

The Account Technician manages the application of all utility rates. The rates have not changed since the current NorthStar system was installed in 2007. Any changes to rates or rate categories are approved by the Accounting Services Supervisor.

Collection

Payments received through the mail are opened by the Senior Account Clerk or the part-time Administrative Clerk. Utility payments are separated from other payments in order to be processed through the NorthStar system.

Non-utility

The deposit is prepared by the Senior Account Clerk or the part-time Administrative Clerk. The Senior Account Technician enters the cash receipts into Bi-Tech and prepares the deposits.

Departments routinely receive credit card payments and checks directly. The Library, Parks and Recreation and Police Departments process their own receipts and prepare their own deposits. Library and Parks and Recreation forward their cash receipt and deposit information to the Finance Department daily; the Police Department forwards its cash receipt and deposit information monthly. Other departments forward receipts to the Finance Department for processing and deposit. An armored car picks up deposit bags from the Finance and Parks and Recreation departments and delivers them to the bank each day.

The Senior Account Clerk or the part-time Administrative Clerk process recurring credit card payments monthly.

Utility

Payments can be made in person (cash or check), by mail (check), online (credit card or bank draft), or by phone (credit card or bank draft). Payments made in person are received by the Finance Department and opened by the part-time Administrative Clerk. These

payments are processed through the NorthStar system. Payments made through the mail are scanned and subsequently transmitted to Bank of America electronically for deposit, and to the NorthStar system for customer account crediting. Both the bank deposit and the NorthStar credit are verified against the cash receipts.

Bank Reconciliation

The bank account to which deposits are made is reconciled by the Accounting Systems Supervisor.

PAYROLL

Payroll is processed centrally in the Finance Department by the Accounting Systems Supervisor using Bi-Tech. Up to 350 employees (including part-time and temporary) are paid each month. There are eight bargaining groups that represent city employees. Payroll manages 14 unique MOUs and contracts.

Maintenance of Records

The Human Resources Department maintains official employee compensation information on a Microsoft Access database. This database does not directly link to or integrate with Bi-Tech. The Accounting Systems Supervisor enters and maintains compensation data provided by Human Resources in Bi-Tech.

Personnel Action Forms are used to transmit and document authorized employee payroll-related additions, deletions and changes to the Finance Department. These forms are approved by Human Resources prior to their being submitted to Finance for input to Bi-Tech.

Position Control

The Human Resources Department is responsible for position control. This includes the tracking of authorized positions, and ensuring that only authorized positions are budgeted, and that only budgeted, vacant positions are eligible for recruitment. Bi-Tech maintains active and inactive employees, but is not used to track budgeted or authorized positions.

Monthly Payroll Cycle

Each employee is required to submit a paper timesheet to his/her supervisor for approval. These timesheets are exception-based (i.e., in order to minimize data entry, they include only differences from the standard work schedule); leave, overtime and holidays worked are recorded on the timecard. Approved timesheets are due to the Finance Department approximately seven working days ahead of payday. Timesheets cover the period from the 21st of the previous month through the 20th of the current month. Payday is on the last working day of the month.

The Accounting Systems Supervisor spends approximately one and one-half days keying information from the timesheets into Bi-Tech. She then uses Bi-Tech to generate a preliminary payroll calculation and corresponding report. This report is reviewed for errors, and then used in combination with Fair Labor Standards Act (“FLSA”) spreadsheets that she maintains to determine needed FLSA overtime adjustments. She makes the adjustments in Bi-Tech, and then uses Bi-Tech to generate final pay amounts.

A summary payroll report is generated and approved by the Finance Director prior to the distribution of payroll.

Bi-Tech is used to generate paper paystubs for the approximate 85% of employees who have their net pay deposited electronically, and paychecks for the approximate 15% who do not have direct deposit.

Bi-Tech generates a file with direct deposit information that is transmitted online to Bank of America two days ahead of payroll. The bank provides a confirmation that this file has been properly received. Bi-Tech also generates a positive pay file, which is also submitted to the bank, in order to minimize the chance that an unauthorized check drawn on the payroll account is paid by the bank.

Reporting Requirements

Bi-Tech generates a monthly report that is used to prepare and submit the City’s CalPERS report, as well as reports that are used to comply with quarterly federal and state tax filing requirements.

In addition, Bi-Tech is used to prepare W-2 statements for employees. These statements are distributed by mail by the end of each January, for the preceding calendar year.

The bank account from which payroll checks are drawn is reconciled by the Senior Account Clerk.

PURCHASING

Municipal Code section 3.08.070 requires that a purchase order be used for purchases of supplies and equipment in excess of \$5,000. Small purchases are often handled via one of the City’s 39 purchasing cards (“CAL-Cards”), petty cash or pre-established credit accounts with vendors. The Finance Department requires that a purchase order request process be used for all purchases of \$1,000 or more, in order to document that the appropriate bidding procedure was followed. Purchases greater than \$1,000 and up to \$5,000 require at least three informal written bids. Purchases greater than \$5,000 must comply with the formal bidding process described in Municipal Code section 3.08.110. The Municipal Code has provisions for sole source awards as well as contracting with vendors who have been competitively awarded contracts by other government agencies. Awards of greater than \$25,000 for supplies and equipment require City Council approval.

The City Manager or the Finance Director may award contracts for professional services after proposals have been received from at least two firms.

Departments prepare purchase order requests using an electronic form. These forms are forwarded to Finance with authorization from the appropriate manager within the requesting department and supporting documentation (e.g., contracts, bid results, W-9 forms etc.). Finance maintains a list of approved authorization levels for each department.

The Finance Department logs the purchase order request, and assigns a purchase order number (using Excel to track the numbering sequence). The Assistant Finance Director verifies that there is available funding for the requested purchase. Requests that are \$5,000 or less are approved by the Assistant Finance Director; those that exceed \$5,000 are approved by the Finance Director and City Manager.

The Account Clerk enters the purchasing information into Bi-Tech for purchase order requests that exceed \$5,000 and generates the purchase order. Two copies are provided to the requesting department, and one copy is maintained in purchasing. Purchase orders under \$5,000 are not input into Bi-Tech.

ACCOUNTS PAYABLE

Each department is responsible for managing the receiving of goods and services provided under their purchase orders. Some vendors send their invoices to the Finance Department; others provide the invoice directly to their contact in the department that procured the goods or services. The receiving department prepares and submits a claim form (request for payment) to the Finance Department with the appropriate department-level approval. Claims of greater than \$1,000 and up to \$5,000 are also approved by the Assistant Finance Director. Claims greater than \$5,000 are submitted to the Finance Director for approval.

Claim forms received by the end of the business day each Tuesday are included in the weekly Thursday check run. An average of 125 checks is issued each week; they are signed with a signature stamp.

Accounts payable checks are distributed in the following manner:

- Employee reimbursements are distributed through intra-city mail.
- Checks requested by departments to be returned to them are either sent to the department contact through intra-city mail or held for pick-up.
- The remaining checks are sent directly to the vendors via U.S. mail.

Occasionally, it is necessary to issue an off-cycle check. Requests for off-cycle payments must be approved by the department head and the Finance Director. A signature stamp is used on these checks.

The bank account from which accounts payable checks are drawn is reconciled by the Accounting Systems Supervisor.

BUSINESS LICENSE

As of September 15, 2011, the City has 1,947 business licenses outstanding (965 commercial, 492 home-based, and 490 contractor). The City also licenses approximately 650 peddlers and 6 mobile food sellers annually. Since 2000, the City has used Accela software to issue business licenses and manage business account information.

Applications

Business license information and application forms are available on the City's website. Although the application process cannot be completed online, it can often be consummated by a combination of mail and phone. The City maintains public counter hours for those preferring to complete their application process in person.

Commercial businesses must obtain approval from Planning, Fire and Building officials, prior to the issuance of a license. The Planning Department approves the Zoning Permit, while Fire and Building ensure compliance with the applicable building codes and hazardous material regulations.

Home-based businesses require Planning Department approval prior to the issuance of a license, in order to certify that the proposed type of business use is permitted at their location.

Business licenses expire annually on March 31.

Renewal

In January each year, the Senior Account Clerk generates business license renewal forms from the Accela system. These forms are mailed to the businesses in order to (1) have the business verify that the information maintained by the City is correct; (2) provide notice to the business of the upcoming license expiration; (3) inform the business of the renewal requirements.

In February, the business license renewal packages are mailed to all businesses that are registered with the City and have not renewed.

Packages returned in the mail are evaluated for possible follow up or inactivation from the system, if it is clear that the business has moved or closed.

Late charges of 10% per month for the first five months are applied to any business that fails to renew by March 31. After five months, 1% per month is added to the late charge.

Enforcement

The Fire Department checks for business license compliance in the course of performing their permit inspections. They report any active, unregistered businesses to the Finance Department.

Information regarding businesses that do not comply with the City's Business License Ordinance is passed on to the City Attorney's Office, who determines the appropriate collection actions.

INVESTMENTS

The Finance Department administers the City's investment of available cash funds, which for the past year has averaged \$42 million. All such cash is pooled for investment purposes. The investment income earned by the pooled investment account is allocated to the eligible contributing funds, based on the proportion of the respective average balances relative to the total pooled balance in the City's investment portfolio. Management responsibility for the City's investment program has been delegated to the Finance Director and the Assistant Finance Director. The City uses its Bank of America checking, Union Bank Money Market and Local Agency Investment Fund accounts for short-term investments and liquidity. Two professional investment management firms, PFM Asset Management and Cutwater Asset Management, are used for long-term investments (up to 5 years).

The City has a written investment policy that has been approved by the City Council. The policy is reviewed annually by the Treasurer, the Finance Director and the Finance Committee to ensure that it remains consistent with the City's investment objectives, current law and economic trends.

ACCOUNTING AND FINANCIAL REPORTING

The Assistant Finance Director oversees the accounting and financial reporting systems and activity. The Finance Department uses Bi-Tech to process the City's major accounting and financial transactions and to generate reports that support the production of its audited financial statements, which are included in the City's Comprehensive Annual Financial Report. Bi-Tech interfaces with Accela for business license collections transactions and NorthStar for utility billing invoice and collection transactions. Bi-Tech also generates reports that support the annual State Controller's Report, which is prepared by the City's auditors.

BUDGETING

Budget Policy

The General Fund budget development is guided by a Council-adopted fund balance reserve policy and a mandated balanced operating budget policy.

The fund balance reserve policy establishes the minimum fund or working capital balances in the General Fund and enterprise funds using specified budget stabilization reserves (contingency and emergency), internal service fund reserves, future capital project reserves, accounting designations and legal reserves, and surplus reserves. This policy also establishes the process for appropriating funds from these reserves.

The mandated balanced operating fund budget policy requires that preliminary, adopted and amended operating budgets for the General Fund and all enterprise funds be balanced. The policy defines “balanced budgets” as “a condition where the current year’s operating expenses do not exceed the current year’s operating revenues and surplus reserves.” The policy also provides guidance on how contingency reserves can be used to address revenue shortfalls with Council approval.

Budget Development

The development of the biennial operating budget is managed by the Finance Director. The process includes the following major activities and milestones:

- December - Timeline developed and distributed to department heads
- January - Salary worksheets and equipment, vehicle and facility inventories distributed
Budget rollout meeting with City Manager and department heads
Budget Excel worksheets distributed to departments
Master Fee Schedule increases distributed (for revenue estimates)
- February - Equipment, vehicle and facility inventories due to Finance
Finance develops major revenue projections (sales tax, property tax)
Finance works with departments on their revenue/fee projections
Finance distributes internal service fund charges to each department
City Manager approves major structural or personnel changes
- March - Departments submit worksheets with line item budgets to Finance
Departments submit Master Fee Schedule updates
- April - Department budget review with Finance Director (1st half of month)
Department budget review with City Manager (2nd half of month)
- May - Budget production (1st week)
Public workshops (if ready)
- June - Complete public workshops
Budget approval (Council)

The operating budget is developed using 44 Excel workbooks that are each composed of multiple integrated spreadsheets. Once complete, the summary and line item expenditure budgets are converted into PDF files which are used in the budget document. Several Word documents are used for the narrative sections of the document. Following the approval of the budget, budget line item information is entered into Bi-Tech by batch. The adopted budget is distinguished from prior-period carryovers and subsequent budget adjustments in Bi-Tech.

In July 2011, the Finance Director introduced a new version of the Long Range Budget Model (“LRB”) to the Finance Committee. The LRB had been recently redesigned to help relate to the Comprehensive Annual Financial Report and to the General Fund Budget Model. The LRB has a 10-year time horizon, and includes revenue, expenditure, transfer and fund balance projections for the General Fund. The LRB is maintained on an Excel workbook that is composed of 16 integrated spreadsheets.

Budget Monitoring and Reporting

The Finance Department provides each department with monthly and year-to-date summary and detailed expenditure performance reports. The summary report is in PDF form and is posted to the City’s shared drive the middle of each month covering activity through the end of the previous month. The detailed report is distributed in hard copy form at approximately the same time. Departments do not have access to Bi-Tech; any special inquiries or off-cycle budget monitoring reports are handled by request through the Finance Department.

Budgeted revenue and expenditure amounts are entered into Bi-Tech in lump sum, annual amounts. Thus, budget vs. actual reports compare actual year-to-date expenditures with the total annual budget authority, without considering seasonality of expenditures.

Most departments monitor their budget performance by assigning an analyst to track their key operating revenue and expenditure accounts on Excel or Quickbooks. They use this tracking to ensure that revenues and expenditures are properly booked, and report errors to the Finance Department by phone or email.

The monthly reports are reviewed by the Finance Committee, which is composed of four members of the public, two Council members and the City Treasurer. The Finance Department usually prepares a mid-year budget review for Council. The timing of this mid-year review depends on the significance of changes to revenues or expenditures, and the preparation of the upcoming biennial budget.

Budget Amendments

Budget amendments are typically used in one of four ways: (1) to transfer budget authority within a fund; (2) to transfer budget authority between funds; (3) to decrease budget authority; and (4) to increase budget authority. All budget amendments must be

approved by the Finance Director. Amendments that result in an increase of budget authority of \$25,000 or more must be approved by Council.

It is common for departments to request budget transfers within their department as a result of changing priorities or operating conditions that cause their actual needs to deviate from their original budget plans. Departments initiate requests for budget transfers by use of a budget amendment form, or by email.

The Finance Department initiates budget amendments on behalf of the City Manager to reduce budget authority when revenues fall significantly short of revenue projections.

Capital Improvement Program

The five-year Capital Improvement Program (“CIP”) Budget is managed by the Finance Director. The process includes the following major activities and milestones:

- December - Timeline developed and distributed to department heads
- January - Notification to departments regarding updating CIP
Finance works on CIP-related revenues with departments
CIP updates due from departments
- February - Review of draft CIP with each department
- March - Add projects recommended from Council Strategic Planning
Final review with each department by Finance Director and City Manager
- April - Final edits to proposed CIP
- May - CIP brought to Planning Commission
Public workshops (if ready)
- June - Complete public workshops
Budget approval (Council)

The CIP budget is developed using 10 Excel workbooks that are each composed of multiple integrated spreadsheets. The budget spans a 20-year period. The first two years correspond to the period covered by the biennial operating budget. Budgetary control is at the project budget total level. Projects listed in years 3 through 5 are intended to be included in future budget cycles and may or may not have identified funding sources. Projects listed in years 6 through 20 identify future needs and rarely have funding sources secured.

IV. Findings and Recommendations

The findings below result from our review. Since our findings are restricted to weaknesses noted and recommended improvements, the absence of favorable commentary on the City's procedures should not be considered a reflection of the adequacy of its overall internal accounting controls. Findings are categorized below into two categories: Budget Process and Other Finance Processes. Recommendations are included for each finding.

BUDGET PROCESS

BUDGET POLICY AND PROCEDURES

The City has not formalized its budget policy and procedures. Local government budgets serve three essential purposes: (1) to establish public policy; (2) to act as a legislative control on spending; and (3) to serve as a financial planning tool. Although the City prepares its annual budget diligently, the process is not fully transparent, and control and accountability over monitoring budget vs. actual expenditures throughout the year needs improvement. Examples of areas the City can improve budget discipline are:

- The City has a Balanced Operating Budgets policy requiring proposed and approved budgets do not exceed revenues. The City's budget policy does not address budget objectives, responsibility for preparation and monitoring, basis of accounting, mid-year review, amendments, legal level of budgetary control, multi-year projects, budget controls, and year-end carryovers.
- The level at which the budget is managed is unclear. According to the City's fiscal year 2009-10 Comprehensive Annual Financial Report: "Budgetary control is maintained at the *fund level* for administrative and operating expenditures... Department directors have control of their own department budgets and if transfers between departments are needed, the City Manager has the authority to approve them." On the other hand, at the April, 22, 2011 Finance Committee meeting, the Finance Director announced that, effective July 1, 2011, departments will be accountable at the line item level and "will be required to request line item budget reallocations." The 2011-13 budget document does not address the level of budgetary control.
- There are no written policies and procedures for the internal service funds. The Finance Department has not communicated how annual charges to departments are determined. Therefore, departments are generally unsure what services they are entitled, based on their contributions to the various internal service funds. There has been no comprehensive analysis of the projected demand and funding needs of the various internal service funds.

- There is no comprehensive written guidance regarding what level of approval is needed for increasing spending authority, transfers within funds and transfers between funds. As a result, the processing of budget adjustments is inconsistent. Sometimes budget adjustment forms are used and supporting documentation and authorization is attached; other times the form is not used. Departments report that the Finance Department makes adjustments affecting their budget without communicating to them.
- Division budgets are prepared assuming that all authorized personnel positions will be filled throughout the year. This assumption is seldom if ever accurate and causes a significant cushion to be built into the departmental budgets. This in turn creates an environment in which the budget is not effective as a cost management or internal control component.

Recommendations

1. The City should adopt a budget policy and related procedures that include budget objectives, responsibility and timelines for preparation and monitoring, basis of accounting, mid-year review, budget amendments, legal level of budgetary control, capital and multi-year projects, budget controls, departmental responsibilities, budget vs. actual analysis and related reports to City Council, and year-end carryovers.

The budget adjustment process should be clarified and documented in the written policy. Council authority required for budget adjustments, as well any authority delegated to the City Manager and/or Finance Director should be stated. The policy should reference the forms to be used for budget adjustment requests, as well as requirements for appropriate justification and documentation. The policy should also describe the process for communicating approval and denial of budget adjustment requests.

2. The City Manager should clarify that the level of budgetary control for which the operating departments are responsible and accountable is at the fund level for administrative and operating expenditures.
3. Budgets should be prepared using a historical percentage (some cities use 95%) of authorized personnel costs to recognize that not all positions will be filled throughout the year.
4. The Finance Director should project the needs of the Vehicle and Equipment Replacement internal service fund, relative to the projected demands over for the next five years. Sufficient funds should be allocated in the multi-year capital plan and annual operations budget for condition assessment, preventative maintenance, repair and replacement of capital assets in order to continue the provision of essential services. For further information, see GFOA Best Practices - Capital Asset Assessment, Maintenance and Replacement Policy. The purpose and scope of all

internal service funds should be defined and documented with clear methodology for determining amounts charged to departments and established service levels.

BUDGET DEVELOPMENT

For the 2011-13 budget, the timeline distributed by the Finance Department called for budget updates from each department to be submitted by the end of March 2011. As of March 31, only one department had submitted the budget update. As of April 28, six of the seven departments had submitted partial budget updates, but only one was complete.

Departments report being “on their own” to develop their budgets. Once they are provided with salary and benefit figures, they receive little support from the Finance Department or City Manager’s Office in the form of preparation, tools or training. As a result, the preliminary departmental budgets are inconsistent in format, content and policy assumptions.

Recommendations

5. At the beginning of the biennial budget preparation cycle, the Finance Department should hold a budget workshop with all personnel in the City having responsibility for preparing and/or supervising the departmental budget preparation. This workshop should address the budget process calendar, key policy issues, review of worksheets that need completing, and assure consistency in assumptions and format.
6. The Finance Department should formalize communication regarding budget deadlines. It should send reminder notices to all department personnel working on the budget a few days before each key deadline. It should also contact each department immediately upon the missing of a deadline to negotiate an alternative acceptable deadline.
7. The City Manager should monitor the progress of budget development and the status of outstanding items at the weekly executive team meetings.

BUDGET MONITORING AND CONTROLS

The following examples reflect areas in which the City can improve the budget accountability, monitoring and controls:

- Budget vs. actual reports are distributed to departments mid-way through the following month, which is too late to support many operational decisions.
- Purchase orders between \$1,000 and \$5,000 are not entered into Bi-Tech so these funds are not encumbered and not accounted for in the unused budget authority.
- Every major department maintains a redundant accounting records system to track key operational budget line item activity. These departmental accounting records are

not formally reconciled to the City's general ledger. Departments that do not maintain redundant tracking systems make frequent requests to the Finance Department for off-cycle reporting, particularly at fiscal year-end.

- A large number of adjustments to the City's general ledger are required during the mid-year review of the City's general ledger and at year-end (more than 100 adjustments for fiscal year 2010-11). This is largely due to departments not thoroughly reviewing and correcting initial account coding of payments and receipts throughout the year. Since some departments don't monitor their expenditure activity regularly, they do not identify miscoded transactions before the mid-year review or year-end closing process.
- Professional fees to outside attorneys are usually not paid through purchase orders, and the amounts can be significant. Lack of information about attorney fees incurred reduces the reliability of Finance Department expenditure projections.
- As part of the year-end closing of the City's accounting records, budget adjustments and expenditure reclassifications are prepared to reduce the incidents of over-expenditure. During fiscal year 2010-11, there were 131 budget adjustments and several expenditure reclassifications. This practice of adjusting the budget at year-end, may ensure that there are no technical budget overruns, but does not encourage accountability.

Recommendation

8. All departments should access and review their budget vs. actual results monthly. The review should be used to help them spend within the established budget, revise operations to respond to operating results, and identify and fix coding errors.
9. To ensure access to timely, accurate financial information, the Finance Department should provide all departments with online access to their revenue, expenditure and budget data, and ensure that departments are trained in how to run and use these reports.
10. To assist the Finance Department to prepare accurate expenditure projections, the City Attorney's Office should monitor outside attorney fees as they are incurred and inform the Finance Department quarterly.

BUDGET EXCEL WORKBOOKS

The Finance Department has determined that Bi-Tech does not have the necessary functionality to develop the budget, perform "what if" scenarios, nor make changes to the input or presentation formats. Therefore, the Finance Department uses a complex set of 44 Excel workbooks (each with a few to dozens of underlying worksheets) to develop its multi-fund biennial budget.

At least four finance staff have full access to these Excel budget workbooks. Portions of the workbooks are distributed to the departments for use in the development of their

respective budgets. None of the cells or sheets in the workbook is locked or password protected, and sometimes department users initiate changes to their worksheets. Due to the complexity of the workbooks, and the relationships between spreadsheets, the integrity of the unlocked, “open” workbooks can be easily compromised. The simple addition of a column, or inadvertent change to or deletion of a formula can create material errors in multiple places.

There is no documentation that describes the purpose, data source, and uses for each spreadsheet in the budget workbooks. As a result, it is difficult to ensure consistency each biennial budget cycle and upon employee turnover.

Recommendation

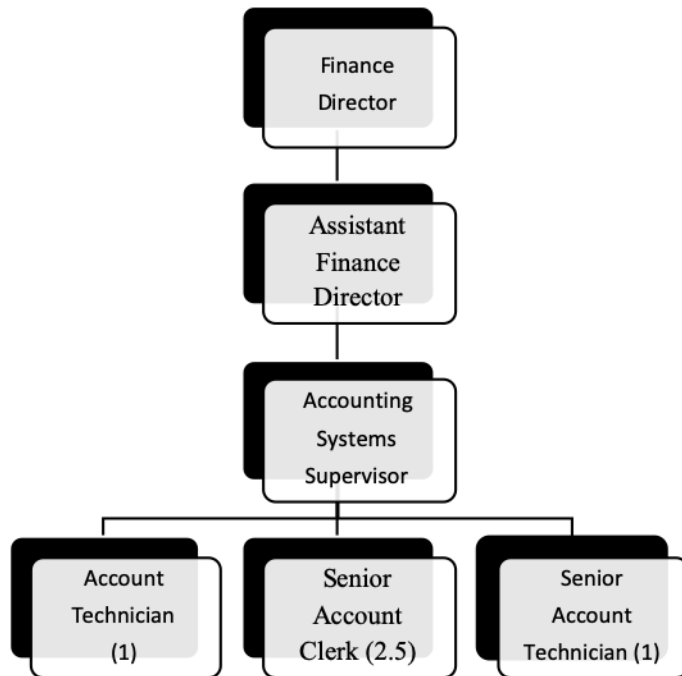
11. Cells containing formulas should be protected and locked, to avoid inadvertent changes. Departments should not modify the columns, rows or formulas in spreadsheets intended to be directly incorporated into the budget workbooks.

The budget workbooks should be documented. Documentation should explain how the worksheets relate to one another; how each spreadsheet is used during the budget development process, and how to ensure that the key workbook results are accurate. Input cells and output cells should be marked in unique colors to distinguish them from one another.

OTHER FINANCE PROCESSES

FINANCE DEPARTMENT ORGANIZATION

Four full-time and one part-time finance staff report to the accounting systems supervisor, who in turn reports to the Assistant Finance Director. The Assistant Finance Director, along with the Information Technology Manager, reports to the Finance Director. The current Finance Department organization chart (excluding the Information Technology Division, which we understand the City plans on transitioning to a newly-created Administrative Services Department) is as follows:



This organization structure is unusual because it has so many (four) reporting levels for a small City and because the Assistant Finance Director has so few direct reports. We understand that this structure has evolved due to strengths and aptitudes of individual employees. Flatter organizations (less number of reporting levels) and spreading supervision responsibilities among all managers tend to enhance communication, promote flexibility and empowerment, and be more sustainable over time.

Recommendation

12. The Finance Director should reorganize the span of control, so the supervision of the staff is shared between the Accounting Systems Supervisor, the Assistant Finance Director and the Finance Director. This could be accomplished by having the business license and utility billing functions report to the Assistant Finance Director, while maintaining the accounts receivable, cash receipts, purchasing and disbursement functions under the Accounting Systems Supervisor. The Finance Director should consider reducing the number of reporting levels by having both the Assistant Finance Director and Accounting Systems Supervisor as direct reports.

INTRA-DEPARTMENT COMMUNICATION

The Finance Department does not meet on a regular basis to share information regarding city-wide issues, or emerging policy and operational issues that affect the department. For example, since SolTrans Joint Powers Authority took over the public transit programs on July 1, 2011, Finance staff has often been unsure how to prioritize transit tasks with other ongoing assignments.

Recommendation

13. The Finance Department should hold staff meetings at least once per month. These meetings provide a forum to discuss:

- Issues that affect operational workload
- Performance expectations
- Prioritization of tasks
- New programs, activities, grants
- Coordinated responses to customer departments

PERFORMANCE REVIEWS

City policy calls for employees to receive at least one written performance evaluation per year. Only two of the employees in the Finance Department reported having received a performance evaluation since June 30, 2010. It is important for employees to receive regular performance evaluations to clarify and define job duties, to establish goals and expectations, to provide feedback and documentation of employee performance, to reinforce positive performance and correct performance problems.

Recommendation

14. The Finance Director should see that all past due evaluations for employees in the Department are immediately prepared and presented. All future evaluations should be placed on a department calendar to ensure they are completed in a timely manner.

TRAINING PROGRAM

The City has no formal staff training program for its employees. Employees are the largest asset of the City. Approximately \$22 million of its annual \$30 million General Fund budget is spent on salaries and benefits.

Employees manage the City's objectives, risks and controls; handle significant amounts of cash receipts; perform complex analysis; interpret laws, regulations and contract provisions; utilize new technology; and work together as a team. Employees need to be involved in continual training to stay current on laws, industry standards and technology affecting their areas. Training also enhances employees' efficiency, effectiveness and morale.

Recommendation

15. The City should develop a formal training program for all its employees. This program should include for each employee:

- Assessment of the skills and knowledge needed to perform his/her job at a high level of competency
- Assessment of the current skills of the individual

- Identification of various development opportunities in the areas needed, including self-study, internal training, external conferences, college courses, personal development seminars, etc.
- Commitment between individual and mentor on which development opportunities will be scheduled
- Adequate funding of the training program
- Tracking of the individual's training progress
- Positive feedback and/or reward to individuals fully participating in the program

POLICIES AND PROCEDURES MANUAL

The City does not have thorough documentation of its accounting policies and procedures. Some individual policies and procedures have been documented; however, other key policies and procedures have not been formalized.

There is no process to ensure a periodic review and update of policies and procedures. Some of the City's policies were established more than thirty years ago. It is not clear that they have been periodically reviewed for relevancy or that the current administration endorses them.

Documentation of policies provides formal guidance to employees on how key functions are to be administered, how the City intends to conduct business, and makes it easier for new leadership and employees to understand the operating philosophy of the City.

Documentation of procedures allows systematic development and communication of tasks; forces the discipline necessary to assure that each procedure is appropriate, effective and necessary; simplifies training for new employees; and encourages sound internal controls. Documentation of procedures is especially important now because the City is considering an upgrade to its Bi-Tech system, and several Finance Department staff are approaching retirement.

Some current operating practices are inconsistent with the Municipal Code. For example, Chapter 3.08 in the Municipal Code creates a centralized purchasing division and establishes the position of Purchasing Officer who "is appointed by the City Manager" and "has general supervision of the City's purchasing program." Although the Finance Director retains authority for the approval of purchase orders, the purchasing function is distributed throughout the City. The duties of the Purchasing Officer as established in the Municipal Code are not clearly delegated. The consequence of this is that purchasing authority and policy is not clear or consistent throughout the City. For example, a change in the bidding process was recently announced to the City by the Economic Development Department.

Codes of conduct and ethics policies have become more common for governments in recent years since the Enron debacle and the Sarbannes Oxley Act. The purpose of a code of conduct is to broadly disseminate the rules of expected behavior to an organization’s employees. Communication of ethical behavior is essential in developing appropriate business practices. The City has no written code of conduct or ethics policy. Although some of the City’s harassment training relates to behavior, there is no comprehensive training or written communication to employees regarding ethical expectations.

The following table shows a list of important policies and procedures that cities commonly have. The last column indicates whether the City of Benicia has such policy/procedure:

| Policies | City Status |
|--|--------------------|
| Whistleblower | Yes |
| Unlawful Harassment and Discrimination | Yes |
| Personnel Performance Evaluation | Yes |
| Purchasing – General | Yes (not current) |
| Investments | Yes |
| Petty Cash | Yes |
| Travel Reimbursement | Yes |
| Debt | No |
| Capital Asset - funding | No |
| Grants (including indirect cost allocation) | No |
| Operating Budget – accountability/responsibilities | No |
| Operating Budget – fund balance reserve | Yes |
| Operating Budget – balanced operating budgets | Yes |
| Records Retention | Yes |
| Systems – security/access/authorization | Yes (not current) |

| Procedures | City Status |
|---|--------------------|
| Purchasing – CAL-Card | Yes |
| Purchasing – receiving | No |
| Purchasing – contracts | No |
| Purchasing – purchase orders | Yes |
| Payroll – timecards | No |
| Payroll – processing | Yes |
| Payroll – maintenance | No |
| Payroll – check distribution | No |
| Grants – documentation and tracking | No |
| Investments – interest allocation | Yes |
| Accounts Receivable – processing invoice claims | Yes |
| Cash Receipts – deposit preparation | Yes |
| Cash Receipts – utility billing | Yes |
| Bank Reconciliation | Yes |
| Petty Cash | Yes |
| Invoice Processing - finance | Yes |
| Invoice Processing – departments | No |
| Travel Reimbursements | Yes |
| Financial Reporting – frequency/format/schedule | No |
| Operating Budget – preparation/process | No |

| | |
|---|----|
| Operating Budget – amendments | No |
| Operating Budget – monitoring | No |
| Operating Budget – long range planning | No |
| Records retention | No |
| Systems – authorized use, confidentiality | No |
| Systems – security | No |
| Systems – approval authority, changes | No |

As noted above, various individual policies and procedures have been documented, but these procedures have not been formalized into a manual, they have not been kept current, they have not been consistently formatted or dated, they have not been stored nor logged in a central location, and they have not been consistently communicated to affected employees.

Recommendations

16. The City should write policies and procedures for the functions listed in the table above for which the City does not yet have.
17. The Human Resources Department should develop a written code of conduct or ethics policy that is applicable to all employee levels. The City should implement training or communicate expectations of ethical behavior to employees.
18. The City’s policies and procedures should be made consistent with the Municipal Code. The Finance Director should re-visit the purchasing regulations established in Municipal Code section 3.08 and develop written procedures that clarify the purchasing authority retained by the City Manager and the Finance Director, and the elements of the purchasing function that are delegated to the departments. The City Manager should formally communicate the revised policy and procedures to all departments.
19. Responsibility for the periodic review of each city-wide policy should be delegated by the City Manager. Financial policies and procedures should be reviewed annually and revised as necessary, under the direction of the Finance Director. Other City-wide policies should be reviewed every two years for recommended changes.
20. The policies and procedures should be gathered into a comprehensive manual. The manual should be available to all employees on the City’s shared drive. In addition to maintaining the date of last revision to policies and procedures, the manual should record the most recent review date.

CUSTOMER SERVICE COUNTER

City customers frequently come to the Finance Department counter to make utility or invoice payments, apply for business licenses, purchase bus tickets, establish or terminate utility service, ask questions regarding City services, etc. The waiting area is very small, and it takes only a few customers to reach its capacity for sitting and standing. Behind the counter, there is room for only one computer and one cash drawer. It is common for more

than one customer at a time to require attention from City staff. The inadequate space and layout is not conducive to good customer service, privacy is lacking and service delivery is slowed by the limited computer and cash drawer access.

Recommendation

21. The Finance Department should redesign the customer counter. The redesign should provide for at least one additional computer and cash drawer, and sufficient space in the waiting area. In addition, the Finance Department should pursue initiatives that reduce the need of its customers to physically visit the City offices. For example, it should implement technology that allows customers to apply for and renew business licenses online, and to purchase bus tickets online or at alternative locations. The City should also enhance and promote automated and electronic payment methods via telephone and internet.

SEGREGATION OF DUTIES

Proper segregation of duties is critical to effective internal control because it reduces the risk of intentional and unintentional errors, risk of fraud, and the appearance of inappropriate actions. The most important concept in segregation of duties is to assure the same individual does not have access to both assets and the related accounting records.

The Senior Account Clerk has security access to issue business licenses and make financial adjustments to accounts. She therefore has the ability to inappropriately issue licenses for which the City has not received payment, and to inappropriately adjust or cancel receivables for business licenses that have been issued.

The Account Technician has security access to change utility customer rates and make financial adjustments to accounts without a secondary review or approval. She therefore has the ability to inappropriately adjust or cancel customer charges.

Human Resources is responsible for maintaining personnel data, interpreting the compensation rate structure for the City and position control. The Finance Department is responsible for the implementation of the City's compensation through the production of monthly payroll. Because Human Resources does not access Bi-Tech, its personnel file maintenance tasks are performed by Finance Department staff. Thus, Human Resources does not have direct control over the system files and information for which it is responsible. In addition, because Human Resources uses a separate data base for position control, there is an increased chance of error and/or confusion regarding approved, budgeted and filled positions because similar budget and position information is being maintained in multiple systems.

Recommendations

22. The Finance Department should revise security access so that a single employee does not have the ability to invoice customers and also revise rates or adjust receivable amounts. The Finance Department should also assure that there is a second employee cross-trained on the business license and utility billing processes. These tasks should

be performed by cross-trained staff while the primary staff is on vacation or otherwise unavailable (as opposed to allowing work to accumulate).

23. The Human Resources Department should use the Bi-Tech system to perform its personnel/compensation and position control functions. The Finance and Human Resources departments should immediately develop a plan to implement this change.

CITY-WIDE WORKGROUPS

Most operational duties performed by Finance Department personnel take place at the culmination of a City-wide process that involves other City departments. For example, payroll is processed after timecards are submitted by every employee and vendors are paid after operating departments order and receive goods/services and approve invoices. City-wide processes are difficult to manage because many departments are involved. Employees in operating departments frequently do not understand their role in the City-wide process and Finance Department employees frequently do not understand why operating departments do not “follow the rules” in preparing documents and submitting them timely.

Recommendation

24. The City should form City-wide workgroups for key City-wide processes. Those that should be considered are procurement/disbursements, receipts, payroll, budget and grants processes. These workgroups should include representatives of each department. Each workgroup should be responsible for improving the effectiveness and efficiency of the City-wide process.

The workgroups should appoint a process owner to function as facilitator of the meetings, be responsible for facilitating communication about the process to workgroup members between meetings, and be the spokesperson/advocate to City management when the workgroup determines organization change, policy change or resources are needed to improve efficiency or effectiveness. Each workgroup should meet two to four times per year as they deem necessary. Workgroup meetings should focus on gaining a shared understanding of the City-wide process, gaining a shared understanding of the needs/concerns of the operating departments and the Finance Department, identifying and prioritizing the primary weaknesses or inefficiencies in the process, developing action plans to address each weakness or inefficiency, assigning action plan tasks to each workgroup member, and reporting the status of previous workplan tasks to the workgroup.

The benefits of City-wide workgroups are improved communication and cooperation between operating departments and Finance, improved City-wide understanding of risks and related controls, improved City-wide understanding of why procedures are needed, a process owner who understands and is focused on the City-wide process across all departments, and employees that feel empowered about how they can improve the process.

CUSTOMER SATISFACTION SURVEY

The Finance Department provides a variety of services to customers, both internal (other City departments) and external (e.g., utility accountholders, business community, etc.). A service organization cannot measure success without getting feedback from customers regarding how well their needs are being met. There has been no attempt to assess customer satisfaction.

Recommendations

25. An annual survey or other formal method of customer feedback from all departments should be conducted for the areas of purchasing, payroll, budget, accounts receivable, accounts payable and financial reporting. Based on the results of the survey, the Finance Department should develop improvement plans. The results of each annual survey, the related improvement plans, and the performance improvements from the previous survey should be proactively shared with other departments.
26. Feedback should be proactively solicited from customers who visit the Finance Department public counter, as well as those who conduct business with the Finance Department by phone and via the City website for utility services, business license and other transactions. The results of these surveys should be used to monitor trends in customer satisfaction, and to develop action plans to address areas of dissatisfaction.

BI-TECH FINANCIAL SYSTEM

The computerized financial system (Bi-Tech) used for accounting, budget, purchasing, accounts payable, accounts receivable and payroll was originally developed in the 1980's and the City implemented the system in 1999. Although the software has undergone several enhancements over the years, it lacks much of the functionality needed to operate effectively and efficiently. Examples of limitations of the City's financial system:

- Timesheets are completed by employees, and re-keyed by Finance staff.
- Fair Labor Standards Act calculations cannot be handled by Bi-Tech so they are calculated using Excel spreadsheets.
- Invoice requests are completed electronically by departments, and re-keyed by Finance staff.
- Purchase order requests are completed electronically by departments and re-keyed by Finance staff.
- Project accounting is not utilized because it would require additional resources to develop non-standard reports.
- Departments do not have on-line access, so they are dependent upon Finance to obtain financial reports and information related to accounts receivable, revenue, expenditure, and budget performance.

System access has been limited to the Finance Department staff, due to the concern that providing broader user access would result in unacceptable system performance. This concern has not been recently validated nor has a cost-benefit analysis been conducted.

Because departments do not have on-line access to Bi-Tech, they must either (1) manage without information about the status of their revenues, expenditures, receivables and payables; (2) rely on the Finance Department to run revenue, expenditure and other reports upon request; or (3) develop and maintain separate, redundant systems (e.g., using Excel or QuickBooks) to track key financial information. Most departments have chosen to maintain separate redundant, informal accounting records for their key operating activity. These informal redundant accounting records usually are not reconciled to the City's formal accounting records, not maintained by professional accountants, and don't have the built-in system controls of a comprehensive financial system. Redundant accounting records are inefficient and increases the risk of error.

Duplicate approvals are performed in an effort to ensure quality control in fund expenditures. For example, the same Finance Department approvals that are required for purchase orders are also required on the department-approved invoices that pay for those services. The assistant Finance Director approves purchase orders between \$1,000 and \$5,000, and then approves the department-approved invoices between \$1,000 and \$5,000. The Finance Director does the same for purchase orders and invoices above \$5,000. The purpose of the redundant approval is to ensure that the proper account numbers are applied during the processing of the invoice and that there is sufficient funding. This step delays the processing of accounts payable checks.

While the Bi-Tech vendor, SunGard, continues to support the current system in order to comply with emerging legal or business requirements (e.g., changes to federal or state tax reporting, or CalPERS reporting), the City does not expect SunGard to make significant improvements to other user functionality. The vendor has identified an upgrade path to more recently developed software (ONESolution) to replace the Bi-Tech system. The cost for this upgrade has been incorporated into the 2011-13 budget. City staff has seen demonstrations of this software and anticipates that it will be available for implementation in 2012.

Recommendation

27. The Finance Department and Information Technology staff should document the needed and expected functionality of the ONESolution product. The proposed solution should provide users throughout the City with access to revenue and expenditure information, and to transaction detail. It should also eliminate redundant steps in personnel records management, timekeeping, purchase order generation, invoice processing and other key business processes.

If the City is unable to upgrade or replace Bi-Tech in 2012, it should review the decision to limit on-line Bi-Tech access to the Finance Department. Department access will provide broader access to financial information and provide better integration of the purchase order generation, receiving and accounts payable processes on Bi-Tech. This integration would minimize the need for redundant controls. For example, if account numbers are properly assigned at the purchase order generation step, and items are received on the system against the appropriate purchase order line items, Finance Department management would not need to review department-approved invoices.

BUSINESS LICENSE CUSTOMER SERVICE

All of the City's nearly 2,000 business licenses expire on March 31 each year. This creates a surge of renewal activity (production and mailing of renewal forms, receipt and processing of payments, phone calls, etc.) between mid-January and mid-May. Approximately 30 hours of overtime is needed to accommodate the peak activity in late March. The customer counter is typically overwhelmed by business license customers, and the volume of mail challenges the capacity of the front line staff during this peak.

The Accela Business License software has undergone limited functionality enhancements since it was installed in 2000. Although additional modules are available that support on-line applications and renewals, the City has not pursued them. Customers are limited to conducting business license activities via mail, phone or in person.

The annual renewal process has required technical support from the vendor for the past three years, due to routine upgrades that were not thoroughly tested, prior to their release by the vendor.

Recommendations

28. In order to distribute staff workload and improve customer response time, the renewal of business licenses should be staggered, with perhaps 25% of business licenses expiring each quarter. Alternatively, all home-based businesses could be transitioned to a September 30 expiration date by using a one-time six month or 18 month cycle.
29. The Finance and Community Development departments, in consultation with Information Technology staff should determine whether the Accela system will meet the future needs of the City and its customers. Even if Accela meets the City's permitting functionality needs, replacement of Accela for business license functionality should be considered.

BUSINESS LICENSE ENFORCEMENT

Business license revenues generate more than \$300,000 annually for the City's General Fund. Aside from registering new businesses and collecting on business license renewals, the City is not dedicating any resources to the enforcement of its business license ordinance except that in the course of routine inspections, the Fire Department checks for compliance with business license requirements. This activity yields an average of eight new business licenses per month. Some other cities report revenue losses resulting from non-compliance to exceed 10% of collections in the absence of a formal enforcement program.

The Finance Department issues purchase orders to City vendors without assessing whether a business license is required and, if so, whether one has been obtained. This represents a missed opportunity to ensure that the City's vendors are in compliance with the business license ordinance.

Recommendation

30. The City should use a revenue audit service that employs a variety of informational tools (professional listings, subscription databases, etc.) to identify businesses that are not in compliance with the City's business license ordinance. Typically, this work can be contracted on a contingency fee basis. Some agencies precede the use of an outside service with an amnesty program, in order to allow businesses an opportunity to comply voluntarily, before they become subject to more aggressive enforcement.

The Finance Department should ensure that vendors and contractors with whom the City does business acquire the appropriate business license, prior to the issuance of a purchase order.

COUNCIL AGENDA PREPARATION

The Finance Department does not review all agenda items that have financial consequences. For example, recommendations to Council requesting authority to pursue or accept grants, approve purchase contracts that reference funding sources with financial tracking and reporting consequences, and increases of spending authority are not routinely reviewed by the Finance Department.

As a result, the Finance Department is unaware of some grants, and cannot assure the outside auditors that it is aware of all relevant financial transactions and budget authority. It is important that the Finance Department be aware of such transactions, in order to ensure accurate financial reporting and proper disclosures in the City's annual financial statements.

Recommendation

31. The Finance Department should be included in the City's agenda preparation and review process for all Council items that have financial implications for the City. The Finance Director or designee should approve any agenda item that affects the City's financial operations and/or reporting requirements.

ACCOUNTS RECEIVABLE BILLING

Receipts collected against invoices issued through the accounts receivable system are not always processed properly. The resulting errors in the detailed vendor account information maintained on the accounts receivable system render that subsidiary system out of sync with the general ledger. The accounts receivable subsidiary has not been reconciled to the general ledger since June 30, 2010.

When invoices are issued through the accounts receivable billing system, a receivable is established for the vendor (identified through a PEID number) on the accounts receivable system. When invoices are posted, an entry is automatically generated that updates the general ledger with a debit to the appropriate accounts receivable account and a credit to the appropriate income account. Often, such payments are not processed using the PEID

vendor numbers. In such cases, only the general ledger will be updated, leaving the subsidiary system with inaccurate payment status information and out of alignment with the general ledger. This condition leads to errors in the payment status of vendor accounts and unreliable information for analysis of receivables.

The City relies on Bi-Tech to provide accurate information regarding the City's accounts receivable. This activity is ultimately reported in the City's financial statements.

Many invoices are issued by departments without using Bi-Tech and without notifying the Finance Department. Such invoices include fines, class registration fees, OES reimbursements and legal settlements. Issuing invoices without the built-in system controls of Bi-Tech increases the possibility of material misstatements of the City's financial information. If billing and collection duties are not adequately segregated, an employee could steal a check and hide the theft by discarding the invoice or otherwise manipulating the billing records. Internal control procedures concerning authorizing, invoicing, reviewing, collecting and processing of revenue and cash receipts in the operating divisions have not been reviewed/audited to ensure there is adequate segregation of incompatible duties.

Recommendations

32. The two systems (i.e., accounts receivable billing subsidiary and general ledger) should be reviewed and reconciled on a regular basis to ensure the integrity of both systems. Disparities that have caused the two systems to get out of sync should be corrected immediately, and feedback provided to the originators of the mis-postings.

33. Billing of all City revenues should be centralized by preparing the invoices online using the Bi-Tech billing module. This requirement will assure appropriate segregation of duties, provide a complete list of outstanding City receivables, and increase the accuracy of posting cash receipts to the appropriate vendor account. Until the Bi-Tech billing module becomes usable in a decentralized manner, billing request forms should be developed by the Finance Department and used by other departments to generate bills. The Finance Department should identify all invoicing that is being done by operating divisions. The Finance Department should develop written billing policies and procedures for operating departments. The departments' compliance with the billing procedures should be assessed periodically to ensure they are being followed. All invoices sent by the City should have instructions to vendors to mail payments only to the City address shown on the invoice.

ACCOUNTS PAYABLE CHECK DISTRIBUTION

Departments routinely request accounts payable checks be returned to them via interoffice mail for direct distribution/delivery to City vendors. Approximately six checks per month are requested on behalf of recreation class instructors, and an additional three to five are requested because the department is holding documents or attachments that are to accompany the check. The physical receipt of the signed checks by the person requesting or approving the payment compromises the City's internal controls.

Recommendation

34. All accounts payable checks should be mailed directly to vendors, not returned to the requesting department for distribution. In those rare circumstances that checks need to be hand-delivered (e.g., settlement payments, escrow deposits), Finance Director approval and a signed receipt showing proof of delivery should be required.

FREQUENCY OF DEPOSITS

Over the past several months, the Police Department has reduced the frequency of its deposits to the Finance Department to once per month. In August 2011, there was no deposit. Monthly deposits typically range from \$4,000 to \$7,000 for police reports, finger printing charges and other fees. Timely deposits are a critical component of the City's internal controls. Errors and discrepancies are typically identified during the deposit and related reconciliation process.

Recommendation

35. Although there have not been any significant errors since the Police Department decreased the frequency of its deposits, it should forward deposits to the Finance Department at least once per week.

GRANTS MONITORING

The City does not manage grants centrally, nor does it maintain a current, comprehensive list of active grants. The City could not provide a complete list of all active grants, but we identified several that range from \$5,000 to \$1,671,000. This contributes to the City's inability to ensure optimal benefit from and adequate compliance related to grants.

Multiple departments maintain grant files. There is no standard format or guidance so different documentation is maintained by different departments. It is important for each grant to have thorough documentation to allow accurate reimbursement requests, to adequately monitor compliance with grant requirements and to provide an audit trail for periodic grantor audits. The City risks losing reimbursements should it miss reimbursement or expenditure deadlines.

Recommendation

36. Departments should coordinate with the Finance Department at the time of each grant application submission, grant award and reimbursement request. The Finance Department should maintain a list of all active grants. The Finance Department should prepare a standard format for grant files containing grant description, agreement, award and termination dates, reimbursement request timing, description of restrictions, grant manager contact info, awarding agency contact info, etc. Responsibility for preparing a grant file in the standard format should be assigned for each of the City's grants. The Finance Department can use this information to estimate accruals, identify slow billing/collection, and identify unused grant amounts and other anomalies.

CAL-CARD PROGRAM

Approximately \$6,000 to \$12,000 per month of purchases are made with the City's 39 CAL-Cards. The purpose of the CAL-Card program is to make the purchase of small dollar items (i.e., under \$1,000) easier to execute. The use of CAL-Cards reduces the use of petty cash, and eliminates small dollar amount purchase orders and small accounts payable checks.

The City does not enforce compliance when departments do not follow written CAL-Card policies. For example, there have been three instances of personal use (one of which was in the amount of \$700) in which the cards were not revoked as explicitly required by the written CAL-Card policy.

Some card users report that the card is often "more trouble than it is worth," either because of the recordkeeping requirements, or the inability to use the card for certain purchases (e.g., online purchases through Amazon). Some of the recordkeeping workload is attributable to lack of process automation. The program has not been audited since its implementation in 2008.

Recommendation

37. The Government Finance Officers Association's best practices include the recommendation that all agencies conduct periodic audits of their purchasing card programs. The Finance Department should conduct an audit and ensure compliance with the CAL-Card policy. When CAL-Card users do not follow City CAL-Card policies, escalating discipline should be enforced up to loss of card privilege. The Finance Department should survey the card holders to understand their frustrations and then develop a mutually acceptable plan to make the CAL-Card an efficient purchasing mechanism without compromising internal controls.

PAYROLL COMPLEXITY

There are eight unique bargaining units and two self-represented contracts for which the Finance Department administers monthly payroll. When taking into account provisions for part-time employees and differences for safety and non-safety employees, there are 14 unique pay groups to administer for 261 employees. Often, similar pay provisions vary from contract to contract. For example, the timing of the periodic payout of holiday pay, uniform allowances, sick leave and vacation cashouts is not uniform across the various bargaining units. In addition, employee contributions to retirement and health benefits vary widely across the various labor agreements and contracts. Maintaining a complex, non-uniform compensation structure is inefficient, increases the risk of error in payroll calculations, and complicates salary and benefit expenditure projections.

Recommendation

38. During future labor negotiations, the City should attempt to simplify compensation structures and pay provisions, and establish uniformity across contracts.

EMPLOYEES AND CONTRACTORS EXIT PROCESS

More than a dozen full-time employees separate from the City each year, whether due to resignation, involuntary termination, layoff, etc. There were 14 and 17, respectively, in the past two years. This trend is likely to increase, as more employees become eligible to retire. Many of these employees have been issued city property (e.g., identification cards, keys, equipment) and some have access to City computer systems. City property is issued to, and facility and system access is also extended to approximately six contractors and volunteers. There is no formal process for managing employee/contractor separations, and the City property and facility access provided to employees and contractors are not tracked by the departments responsible for them. By not having a process to ensure that those who have separated from the City return all property and relinquish access to City systems and facilities, the City jeopardizes its physical security, and the security of its employees and business systems.

Recommendations

39. The Human Resources Department should develop a formal exit process for all separating employees and contractors. The process should require that the terminating employee's supervisor manage a checklist that documents the return of any City property that was previously issued to the employee, provides for the removal of security access to the City's computer systems, and any other non-public access to City facilities and systems.

40. Departments should maintain a list of City-owned equipment, facility access cards or keys distributed to City employees, contractors and volunteers. Information Technology should be accountable for formally tracking all network and computer system access granted to City employees, contractors and volunteers. These records should be reviewed periodically to ensure that only current employees and others with legitimate City business needs are in possession of City equipment, or have access to City facilities and systems.

TECHNOLOGY PLAN

The City does not have a technology plan. Technology plans typically describe an organization's vision for use of technology in its service delivery and internal systems. They also provide a prioritized inventory of key technology initiatives with corresponding timelines and funding requirements. In the absence of such a plan, the relative priority of the City's technology initiatives is unclear. The 2011-13 budget includes as one of the strategic action items, the preparation of "a City government technology improvement plan." With limited IT resources, it is important that there is a common understanding of technology priorities. The development of the plan has been assigned to IT; however, there is currently no mechanism to ensure that the resulting plan will be embraced by the executive management and City staff.

The cost of new technology is borne by the operating departments. By not centralizing the funding of new technology and separating it from operating budgets, long-term, strategic technology initiatives could give way to short-term sustenance of services, especially in the years departments are required to reduce their budgets.

Five hand-held meter readers are used to record usage for approximately 9,000 water meters. These units have been used for at least ten years, and there is no service contract available for maintenance. Should a meter reader break or be lost, it is questionable whether the City could repair or replace the unit in a timely manner. In the decade since these devices were acquired, there have been substantial technical improvements to meter-reading technology, which has improved the efficiency of the meter reading process. Although the meter-reading error rate is below one percent, the equivalent of two full time equivalent staff (approximately \$200,000 per year) and additional vehicle and equipment resources are dedicated to meter-reading and service-related activities that are not required by newer, automated meter-reading systems.

Recommendations

41. The City Manager should assemble an information technology committee comprised of the Information Technology Manager, a representative from the City Manager's Office, and department heads or their designees. This committee should assist the Information Technology Manager with the development of a City-wide Technology Plan and related prioritization of city-wide technology initiatives. The Technology Plan should include the upgrade of the City's financial system from Bi-Tech to ONESolution and identify the necessary organizational resources that will be required to extend system access and functionality to the departments.
42. The funding of strategic, multi-department technology projects should be centralized in the City's Capital Improvement Program or a dedicated internal service fund, in order to ensure its consistency with City-wide priorities.
43. The Public Works Department should perform a cost-benefit evaluation related to replacement its hand-held meter readers. The results of the evaluation should be incorporated and prioritized into the City's technology plan as appropriate.