

Agenda Report

July 28, 2014

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: City Manager's Office
SUBJECT: AUTHORIZATION OF A NEW INTERNAL AUDIT MANAGER IN THE CITY MANAGER'S OFFICE

RECOMMENDATION:

It is recommended that the City Council authorize the City Manager to:

1. Amend the Non-Represented-Management Salary Resolution to establish an Internal Audit Manager classification and related salary ; and
2. Amend the budget to add 1.0 FTE Internal Audit Manager in the City Manager's Office to be funded within the current adopted FY 2015 budget appropriations.

BACKGROUND:

Having sound fiscal management policies and procedures are essential for any large organization to succeed especially in today's economic climate. Ensuring that funds are expended for intended purposes and within proper authorization lends trust that the organization is operating efficiently and effectively. In an era when customer service is our number one goal following administrative policies and procedures may at times seem too bureaucratic and perceived as interfering with achieving immediate desired results. Additionally as this city has downsized and employees have assumed more workload, some may be less diligent with regard to ensuring checks and balances are being implemented. One of the City Council's goals is to *Maintain Fiscal Responsibility and Stability*. This can only occur when there is an employee culture that understands and accepts accountability as a core value and a fundamental requirement to maintaining the public trust.

Prior to February 2011 the City maintained an Internal Auditor who was charged with managing the operational audits to ensure proper policies were being followed. As part

of the budget reduction strategy the Internal Auditor duties were transferred to the City Controller who worked with outside auditing firms to conduct financial and procedural audits. The outcomes of those audits were presented to the Audit Committee. The audits have found that in some cases compliance with our policies have been too relaxed. The internal audit schedule is attached as reference (Attachment A).

Recently management has become aware of several instances where staff has exceeded the approved contract amounts and/or continued work after the contract had expired. These examples have demonstrated that our organization is too large and complex to adequately manage an internal audit function with a part-time manager. To correct the issues identified in recent audits, the following plan of action is being immediately implemented:

- Retain additional external accountants to complete an immediate audit of all accounts payable items over the last three years to verify that they had the proper authority to be paid
- Training will be given to all city employees who have a role in the contract process on what the city's policies and procedures are and their accountability in this process.
- Hire a new Internal Audit Manager position that will be in the City Manager's Office to conduct internal city wide audits on a routine basis. This position will evaluate our financial and administrative policies to identify potential risk.
- The Executive Leadership Team will review all financial administrative policies to ensure that they are current and based on best city practices.

In the Department of Finance lies the Purchasing and Accounts Payable (A/P) section which is responsible for processing all payments in the city. However, it should be understood that departments where a contract is generated also have responsibility in the contract management oversight. The Department of Finance will immediately begin implementing the following:

1. Direct our external auditors (Brown Armstrong) to increase focus, verification and review of our internal controls, particularly A/P and payroll in their audit procedures for the current audit
2. Re-emphasize to A/P staff that they are not to process payments unless they can verify authority to pay (i.e. current PO or contract), valid signatures, available budget, etc.
3. Hire contract staff to review all payment activity above \$50,000 to ensure appropriate authorization is present

4. Revalidate all signature authorization forms with all departments for A/P with increased training including an emphasis on individual responsibility and accountability.
5. Require all personnel authorized to approve A/P payments participate in refresher training.
6. Develop a summary report or an exception report for A/P and payroll processing that will be reviewed by a Finance Division Manager after every A/P and payroll process. This information will also be available on-line to the city Department Heads so that they are aware of the current contract actions for their respective departments.
7. Implement an employee validation procedure on various payrolls to ensure that valid and actual employees are being paid. An example would be to have all employees sign and show identification for a particular payroll period.
8. Increase training for all employees to reemphasize that consequences will result from violation of policies. This past year the City Manager has included accountability as one of his themes when meeting with employees.
9. Continue work to implement new ERP system which will have internal control and monitoring measures not available with the current financial system to help prevent and identify potential issues earlier. The current goal is to have the Accounts Payable and Purchasing modules implemented by July 1, 2015.
10. Before the new ERP system has been implemented develop a process for centrally tracking compliance on all contracts.
11. Hire the new Fiscal Services Administrator who will have as a part of their duties identification of policy and process improvements. This new position in the Finance Department was authorized in FY 2014 and is expected to be hired in August. This position will focus on special projects in addition to maintaining the effectiveness of the finance policies and procedures.

Internal Audit Manager:

The City Council establishes by Resolution salaries and benefits for classifications which are not represented by a union. The City Council may amend the Salary Resolution from time to time to adjust salaries and benefits or add classifications. The Internal Audit Manager will be an at-will position with a control rate of \$128,211 for this new classification. This position will be responsible for directing, managing, supervising, and coordinating the activities and operations of the internal city-wide audit program. The internal audit process includes examining and evaluating the adequacy and effectiveness of internal controls, quality of performance, and adherence to policies, procedures, resolutions and ordinances. This position will report to the Assistant City Manager in the City Manager's Office and be responsible for providing regular updates to the City Council Audit Committee.

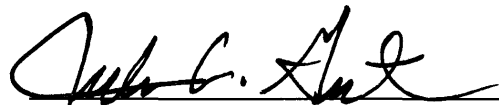
COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic goal to maintain fiscal responsibility.

FISCAL IMPACT:

The full annualized cost for this position is approximately \$175,000 including applicable non-direct costs. Sufficient funding will be made available within the City Manager's Office existing fiscal year 2015 budget.

Respectfully submitted,


JULIE A. GUTIERREZ
Assistant City Manager

Approved by:


MICHAEL J. BECK
City Manager

Attachment A: Internal Audit Schedule