

Agenda Report

November 16, 2015

TO: Honorable Mayor and City Council

FROM: City Manager's Office

SUBJECT: STATUS UPDATE ON THE IMPLEMENTATION OF RECOMMENDATIONS MADE BY KPMG LLP, THE TASK FORCE ON FINANCIAL ADMINISTRATION AND INTERNAL CONTROLS AND MANAGEMENT PARTNERS IN REGARD TO STEPS TO ENHANCE OPERATIONAL AND FINANCIAL OVERSIGHT

RECOMMENDATION:

The following report is for information only and is intended as a status update on the implementation of recommendations made by KPMG LLP, the Mayor's Task Force on Financial and Internal Controls, and Management Partners, in regard to steps to enhance operational and financial oversight.

BACKGROUND:

In May 2014, possible misappropriation and misuse of public funds held in the City's Utility Underground Program (UUP) fund was identified. Subsequently, the City engaged the audit firm of KPMG LLP (KPMG) to perform a forensic audit of the UUP and to assist the City in determining the size of the suspected loss, which was determined to be between \$5.9 and \$6.4 million. In addition, KPMG's observations and findings resulted in 43 specific recommendations to enhance operational and financial oversight of the UUP program specifically, and various procurement/accounts payable practices in general.

In February 2015, then Mayor Bogaard appointed a Task Force on Financial Administration and Internal Controls. The Task Force was charged with:

1. Advising the City Council regarding the City's actions to review its financial administration and reporting;
2. Reviewing the integrity and effectiveness of the City's financial reporting and controls;

3. Assessing the City's internal audit function, and the pros and cons of an ongoing citizen-based audit advisory committee; and
4. Making such other recommendations as the Task Force may determine will strengthen the City's financial administration and internal controls and minimize risk.

Under a separate item this evening, the Task Force will be presenting the City Council with its final report. The report includes 26 recommendations, each of which was discussed at length at the final Task Force meeting held on October 3rd. In attendance at the meeting were the City's Executive Leadership Team and Division Managers from Public Works and Finance Department, as it was important for this group to hear the comments of the Task Force members and fully understand the basis for the recommendations.

A third report, prepared by Management Partners, focused more specifically on the Utility Underground Program. That report provided 13 recommendations, which were presented to the City Council on October 19th.

As each of these reports was completed, staff carefully reviewed the respective recommendations, which in virtually all cases have been accepted and implemented or are in the process of implementation. Moreover, a number of these were initiated by City staff prior to the completion of the various reports.

Attachment A is a summary of the 82 total recommendations. Given that a number of these recommendations address the same or similar issue, where possible they have been grouped together. For each recommendation a staff response and status is provided as well as identification of which City department(s) is responsible for implementation.

While the focus of each of the three reports was slightly different, certain general themes are common between them; these include:

- The need to establish new written procedures for the operation of the Utility Underground Program.
- Greater segregation of duties as it relates to those selecting contractors, approving and processing invoices.
- Greater scrutiny and maintenance of the City's master vendor list and handling of 1099 reporting.
- Clarifying and limiting the use of Special Handling Check requests.
- Enhancing the City's audit function.
- Placing greater emphasis on employee training and supervision.

Staff is moving forward in all these areas as detailed in Attachment A. Some notable examples of actions taken to date include:

- Segregating duties once held by a single Analyst in the Utility Underground Program and reassigning the Accounts Payable Section of the Finance Department to the Accounting and Analysis Division to create separation from the Purchasing function.
- The use of Special Handling Check requests has been limited solely for the purpose of allowing checks to be picked up rather than mailed to a vendor on a truly exceptional basis; they may not substitute for a properly approve contract.
- The City has recently hired an Internal Audit Manager; awarded a contract for a Fraud Risk Assessment and engaged a new External Auditor to perform the City's various financial audit functions.
- New procedures requiring the completion of W-9 forms by new vendors have been placed into effect with appropriate 1099 tracking and reporting.
- On October 19th, the City Council acted on the recommendations of Management Partners which will result in a series of changes to the Utility Underground Program.
- The Manual of Personnel & Administrative Rules has been updated to include new procedures and has been distributed to staff and expanding training on financial management such as Purchasing, Accounts Payable, Cash Handling and other topics is being implemented.

Importantly, with the implementation of the new Tyler Munis Enterprise Resource Planning (ERP) system, many of the recommendations have been built into the workflow of the system. For example, until a W-9 form is received a vendor cannot be setup in the system for payment. Furthermore, the system requires matching between invoices and contracts to ensure that payments are made only when a valid contract exists.

COUNCIL POLICY CONSIDERATION:

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

ENVIRONMENTAL ANALYSIS:

The proposed action is the presentation of information regarding responses to recommendations made by KPMG, the Task Force and Management Partners.

This action has been determined to be exempt from the CEQA process pursuant to State CEQA Guidelines Section 15061(b)(3), the general rules that CEQA applies only to project which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question, such as purchasing equipment to allow for ongoing maintenance and operation activities, may have a significant effect on the environment, the activity is not subject to CEQA. This action does not have the potential for causing a significant effect on the environment and is therefore exempt from CEQA per Section 15061(b)(3) (General Rule).

FISCAL IMPACT:


Implementation of the recommendations contained in the KMPG, Task Force and Management Partners reports will have direct and indirect costs, a number of which were already anticipated and budgeted. As additional costs are identified they will be addressed.

Respectfully submitted,



Julie A. Gutierrez
Assistant City Manager

Approved by:



MICHAEL J. BECK
City Manager