

**KPMG, Task Force and Management Partners Matrix of Recommendations  
with Responses Summary Report - Recommendations  
November 23, 2015**

KPMG Recommendations	Task Force Recommendations	Management Partners Recommendations	Responses/Status	Department(s) Responsible
<p><b>1. Prepare and establish written desk procedures:</b> The City should establish clearly delineated processes and procedures specific to the UUP (Underground Utility Program), starting with written and documented desk procedures for the duties and responsibilities of the program manager as well as the designated program supervisor, where applicable. Written processes and procedures should ensure that employees are informed of and understand the specific roles and responsibilities required of them and the appropriate processes and procedures to be followed in the performance of their duties. Due to the long-term, multi-year timeline required to complete the UUP, written and documented processes and procedures, including detailed process narratives, are necessary in the accurate and consistent accounting, reporting, and reconciling of UUP expenditures.</p>		<p>1. Assign ownership of the underground utility program to Pasadena Water and Power for program administration and management.</p> <p>2. Prepare written policies and procedures for the agreed-upon processes for the underground utility program.</p> <p>4. Complete the implementation of a master contractor approach for the private property portion of the UUP.</p> <p>5. Evaluate the \$3,000 maximum allowance over the next three years to determine whether it is having the desired outcome.</p> <p>6. Modify the right-of-entry letter template to include a project timeline, a deadline by which the customer should return the right-of-entry form to the City, and alternatives for accessing additional information about the project.</p> <p>7. Establish written guidelines for determine authorized signers. Guidelines should consider not only the level of position within the organization but how to ensure sound internal controls, including segregation of duties.</p> <p>10. Review the procedures for charging engineering staff time to the underground utility program to ensure the costs are appropriated in the budget and allocated accurately.</p>	<p>Desk Procedures: This item is being addressed through the Management Partners analysis. This report and recommendations were approved by the City Council on October 19, 2015 and the items below explain the status more fully.</p> <p>Ownership of UUP: Public Works and Water &amp; Power are currently working together in managing the UUP. Transition efforts are in progress and are expected to be completed by July 1, 2016. Transition of UUP Fund management will occur subsequent to completion of Management Partners Recommendations 2, 10, and 11.</p> <p>Written Policies: Public Works and Water &amp; Power will jointly complete a dynamic document by end of the fiscal year based on lessons learned from the Hill Avenue UUP. An estimated \$25,000 in support services will be needed to complete this assignment.</p> <p>Master Contract: This recommendation has been implemented. The City Council awarded a contract to VCI Utility Service on June 8, 2015 in the amount of \$1,601,700. Construction will begin in October and will be completed in April 2016. After the work has been completed, the effectiveness will be evaluated following completion of Hill Avenue UUP on private property anticipated by September 2016.</p> <p>Evaluate Allowance: No change is recommended at this time. Staff will reevaluate potential changes following completion of Management Partners Recommendation #4.</p> <p>Right-of-Entry: The Right-of-Entry form was revised in June 2015 and was sent to customers on Hill Avenue that had not responded to prior correspondence.</p> <p>Written Guidelines Regarding Approvals: The guidelines are incorporated into the Authorized Signature Form. The Finance Department updated the guidelines and subsequently had all departments resubmit the Authorized Signature Form. Authorized Signature Form guidelines stipulate that the forms will be updated</p>	<p>Finance Department Public Works Department</p>

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			<p>annually in addition to changes during the year. Review Procedures: New procedures will be developed to review how all charges to UUP upon transfer of fund management to PWP by June 30, 2016 (prior to implementation of Management Partners Recommendation #1.</p>	
<p><b>2. Assign an additional employee to the UUP:</b> The City should consider assigning an individual (e.g., program analyst), to assist with the performance of UUP financial activities to ensure accuracy in accounting and segregation of duties. Duties would include assisting in monitoring, tracking, and reconciling program expenditures against the progress and completion of actual electrical undergrounding conversion work performed. The monitoring and reconciliation process should ensure that invoice amounts billed by vendors represent actual work performed for services rendered and can be verified – that work can be tracked and identified with a specific property address.</p>		<p>11. Add analytical staff to Public Works to increase the level of financial analysis being conducted for all of its capital improvement projects. Implement regular review of financial analysis by senior level managers for all capital project funds.</p>	<p>At the City Council meeting on February 2<sup>nd</sup> a budget amendment was approved to convert two vacant positions in the Engineering Division to a Management Analyst II position and to an Associate Engineering position. These two positions will allow for better oversight, review and management of the undergrounding program and all fiscal matters in the Department of Public Works. The Associate Engineer has been hired and interviews for the Management Analyst II were held on November 11, 2015.</p> <p>Restructure of Group Overseeing the Underground Program:</p> <ul style="list-style-type: none"> <li>• Converted a Management Analyst IV position to Associate Engineer with the operating budget cleanup in late January 2015</li> <li>• The Associate Engineer along with two other Engineers in the Streetlight and Traffic Signal Section will oversee various projects within the undergrounding program. There will not be a sole person responsible for undergrounding but instead three engineers will be assigned various underground district projects to design and provide oversight.</li> <li>• The signature authority for invoices, requisitions, etc. has been changed to the Principal Engineer (for limited items) and the City Engineer.</li> <li>• Quarterly financial reviews will be performed for all open undergrounding projects.</li> </ul> <p>As part of the original KPMG recommendation a need for increased project analytical review was identified not only for undergrounding but for overall CIP analysis. As the program transitions to Water &amp; Power(PWP), they will seek an additional FTE in FY2016 budget</p>	<p>Public Works Department</p>

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			cleanup report. An estimated additional \$150,000 in labor and/or support services for PWP Finance.	
<p><b>3. Segregate tasks and duties among employees:</b> The City should establish procedures to ensure UUP program activities are properly segregated among employees, and not concentrated in any one individual. For example, the program manager should not be allowed to approve vendor invoices, submit invoice payment requests, and pick up the printed checks. These duties should be segregated to ensure no employee has the ability to authorize and approve payment of vendor invoices and also have custody of check payments.</p>			<p>Public Works has separated the duties once previously held by the Management Analyst IV and has several employees doing the work.</p> <p>In the Munis system, workflows are created that allow for segregation of duties. In regards to the UUP process will be designed so that no responsibility or duty is concentrated with one individual or department. During the transition period of both the Munis system and the UUP to Water &amp; Power), reimbursements for individual property owners continue to use the City of Pasadena Electric System Underground Application For Utility Reimbursement form which requires the approval from three Departments. Workflow functionality is still being refined in the Munis system for some accounts. In cases where the functionality is not yet set, the transaction is sent by default to the Finance review queue where staff manually routes through the workflow process.</p> <p>Appropriate segregation of duties is being carefully considered in the design of the ultimate process with the migration of the UUP from Public Works to Water &amp; Power.</p>	Public Works Department
<p><b>4. Adhere to document chain of custody:</b> Invoices and other documents submitted for signature authorization should be directly routed to the next level for further approval or processing. There should be adherence to a chain of custody of the documents such as that approved documents are not handed back to the initiator or requestor where the documents may be subject to unauthorized changes or manipulation.</p>			<p>This has been completed and is managed within the Munis system. All processes that utilize workflow, including the processing of invoices and related documents, will inherently preserve the chain of custody if all the proper documentation and coding has been submitted. In the event that invoices or other documents have not been properly approved prior to submitting to Finance, the process is rejected in whole and must be reinitiated by the originating department. Additionally once a document is received by the Finance Department, the practice of returning it to the initiating department has been discontinued. Original documents no longer leave Finance.</p>	Finance Department

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<p><b>5. Monitor and reconcile private property reimbursements:</b> With regards to payment of reimbursement claims submitted by private property owners – the City should have procedures in place to identify all properties within the Underground Utility Program eligible for reimbursement and track property owners who have already received a reimbursement as well as the vendor who performed the work. Ensure that no properties are reimbursed more than once and no “double dipping” occurs where both the vendor and property owner both receive payment from the City.</p>			<p>Public Works and Water &amp; Power staffs have a list of all the properties within an undergrounding district. Staff has been assigned to review the invoices to ensure that all the properties are eligible for reimbursement. As a note of correction to the KPMG recommendations, reimbursements are allowed outside of established underground districts.</p>	<p>Public Works Water &amp; Power Finance Departments</p>
<p><b>6. Discontinue historical practice of submitting invoice payment requests as reimbursements:</b> Reiterate to Underground Utility Program employees and all Accounts Payable staff that vendors receiving direct payment from the City for work performed on a property are not to be processed as reimbursements, but rather as regular vendors that must go through the regular procurement process and be added to the Master Vendor List prior to receiving payment. Vendors may not bypass the regular procurement process by receiving payments as reimbursements (i.e., a purchase order or contract must be required prior to payment).</p>			<p>This practice was discontinued immediately. All payment requests related to the Underground Utility Program must be routed through the regular payment and workflow process in the Munis system, which includes setting up the vendor on the Vendor Master list.</p> <p>During the transition period of both the Munis system and the UUP Program to Water &amp; Power, UUP reimbursements for individual property owners continues to use the City of Pasadena Electric System Underground Application For Utility Reimbursement form which requires the approval from three Departments. Workflow functionality is still being refined in the Munis system for some accounts. In cases where the functionality is not yet set, the transaction is sent by default to the Finance review queue where staff manually routes through the workflow process in Munis.</p>	<p>Finance Department Public Works Department</p>
<p><b>7. Communicate purpose of Special Handling Request:</b> Conduct effective city-wide communication to re-emphasize and re-enforce the policy that use of Special Handling Request Forms should be limited to</p>			<p>The Purchasing Section in the Finance Department immediately conducted training on this in January and February 2015.</p> <p>All invoices associated with a contract or Purchase Order are processed through the normal workflow process in Munis and</p>	<p>Finance Department</p>

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time-sensitive emergency payments and should not be used as the normal process for invoice payment.			checks are cut twice a week in accordance with the check run schedule. Invoices being paid without a Contract or PO require a Check Request form to be filled out. In these instances, they are still processed in accordance with the normal check run process. Special Handling Request Forms are now only used to request that a vendor pick-up a check under special circumstances (Department Director and Finance Director must approve these) or in urgent situations where payment is required by the City Attorney's office to settle a claim.	
<p><b>8. Use only original SHR Forms for payment requests:</b> The City should ensure that invoice payment requests accompanied by an SHR (special handling request) Forms are submitted using only original SHR Forms and bearing original signature authorizations on the Department Director approval line. Payment requests should not be submitted by City department using photocopies or other reproduced documents and Finance should not accept non-original SHR Forms for payment processing.</p>	11. All KPMG recommendations regarding special handling requests should be implemented immediately.		This has been implemented and only original forms with original signatures are accepted. Additionally, Special Handling Request Forms are now only used to request that a vendor pick-up a check under special circumstances (Department Director and Finance Director must approve these) or in urgent situations where payment is required by the City Attorney's office to settle a claim.	Finance Department
<p><b>9. Limit review and approval of SHR Forms:</b> The review and approval of Special Handling Request Forms should be limited to the City Department Director requesting payment and the Director of Finance. Such authority should not be delegated to others under normal circumstances, if possible.</p>	11. All KPMG recommendations regarding special handling requests should be implemented immediately.		This has been implemented. Special Handling Request Forms are now only used to request that a vendor pick-up a check under special circumstances or in urgent situations where payment is required by the City Attorney's office to settle a claim. In these cases the Department Director and Finance Director sign the request.	Finance Department
<p><b>10. Establish Dollar Amount Thresholds:</b> Special Handling Requests exceeding certain threshold amounts should be subjected to higher level review and approval before</p>	11. All KPMG recommendations regarding special handling requests should be implemented immediately.		The dollar thresholds are still being reviewed. At this time the Finance Director is required to sign all Check Request forms. Many of Check Request forms are settlements from the City Attorney's Office which have City Manager and/or City Council approval, Special	Finance Department

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processing. For example, requests for payment of an amount \$25,000 and over should be reviewed and authorized by the Director of Finance; \$50,000 and over requires additional review and authorization by the Deputy Director Finance/Treasury; and \$75,000 and over requires additional review and approval by the City Manager or Assistant City Manager.			Handling Request Forms are now only used to request that a vendor pick-up a check under special circumstances (Department Director and Finance Director must approve these) or in urgent situations where payment is required by the City Attorney's office to settle a claim.	
<p><b>11. Track SHR Forms electronically in the system:</b> Track the use of Special Handling Requests electronically within the IT system and notate each payment that was processed using a Special Handling Request Form. Record supplemental authorization information such as the employee who submitted the request and the supervisor in the respective department who authorized the request. A reference field should be included in the tracking process to identify the City Department which submitted the SHR Form. Tracking of SHR Forms will help to facilitate future reviews.</p>	<p>11. All KPMG recommendations regarding special handling requests should be implemented immediately.</p>		<p>The Munis system does have a check box within invoice processing titled "Special Handling," but this only shifts the actual check to the end of the batch in a check run.</p> <p>Payments of invoices are no longer paid on an emergency basis solely from the Special Handling Request form. All payments are processed through the Munis system with the normal approval workflow.</p> <p>Special Handling Request Forms are now only used to request that a vendor pick-up a check under special circumstances (Department Director and Finance Director must approve these) or in urgent situations where payment is required by the City Attorney's office to settle a claim.</p>	Finance Department
<p><b>12. Conduct regular reviews:</b> Finance should conduct periodic regular review of Special Handling Request Forms for any unusual trends such as high volumes from a specific department or employee, high volumes of payments to a specific vendor, repetitive dollar amounts, or spikes in use around certain timeframes. Follow up should be performed on any unusual or excessive activity identified.</p>	<p>11. All KPMG recommendations regarding special handling requests should be implemented immediately.</p>		<p>This will be a joint effort between the Finance Department and the Internal Audit Manager. Special Handling Request Forms are now only used to request that a vendor pick-up a check under special circumstances (Department Director and Finance Director must approve these) or in urgent situations where payment is required by the City Attorney's office to settle a claim. This revised process ensures that even when a check is picked up by the vendor, the approval process using workflow is utilized and payments are not expedited solely from the SHR Form.</p>	Finance Department City Manager's Office (Internal Audit Manager)

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<p>13. <b>Perform operational audit:</b> In addition to conducting periodic regular reviews of processed SHR Forms. We recommend the City perform an operational compliance audit of the SHR Form process to assess the process, procedures and actual practices. The audit should cover activity in recent fiscal years (i.e. the last 3 to 5 years) to determine unusual patterns or trends that may be indicative of fraudulent activity and to identify areas of potential internal control weaknesses.</p>			<p>The City awarded a contract on October 26, 2015 to Macias Gini &amp; O'Connell, LLP to perform a Fraud Risk Assessment on six of the city's departments. A large part of their work will be to review processes to identify areas of potential internal control weaknesses. The fraud risk assessment work will be completed by June 2016.</p>	<p>Finance City Manager's Department (Internal Audit Manager)</p>
<p>14. <b>Create a valid Vendor Master List:</b> The City should create a valid vendor master list based on the vendor data and information maintained in the financial system and sourced during the vendor setup/procurement process. The Vendor Master List should serve as an approved vendor list or database from which the City can cross-reference to. The City's current vendor master list appears to be an accumulation of vendor names that have received payment from the City and would not be considered a reliable or adequate data source to support a vendor master list.</p>			<p>The vendor master resides within Munis system. All entries that require vendor identification are restricted to vendors on the Munis vendor master list, only to be modified by the Purchasing Division within Finance. In addition, prior to transferring the vendor master list from PeopleSoft to Munis staff reviewed the data to ensure that a W-9 existed as well as responses to the Vendor Questionnaire.</p>	<p>Finance Department</p>
<p>15. <b>Restrict user access to the Vendor Master List:</b> Only select members of the Purchasing division should have authority and access to add/change/delete vendor information to/from the Vendor Master List. Additionally, username identifications must be used to uniquely identify the employee</p>			<p>A vendor master list is maintained in the Munis system by authorized users. The City's Department of Information Technology maintains control of user rights to ensure only appropriate staff have access to add/delete/change a vendor file. Within the Munis system, a "Vendor Audit List" report may be run to review changes.</p>	<p>Department of Information Technology</p>

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who added each vendor or made changes to the existing vendor information.				
<p><b>16. Require vetting process for new vendors:</b> The Vendor Master List should include only those vendors who have been vetted and put through the normal procurement process. Vendors may not be added via deviated methods. Vendors should be required to complete and submit a W-9 (Request for Taxpayer Identification Number (TIN)), a Vendor List Questionnaire (Form AA-1), or equivalent vendor application document prior to set-up in the system.</p>	<p>12. A reliable master vendor list and data-base should be created listing all approved vendors. No vendor should appear on the list or be added to it later until such time as the legitimacy of the vendor has been established and documented. No vendor should be hired by the City who is not on the master list. The Finance Director should be actively involved in establishing the list and the rules and procedures that will govern it.</p>		<p>Only certain staff in the Purchasing Division of the Finance Department (Buyers) can enter new vendors or modify the information on current vendors. This segregates this duty from any others in the City, including Account Payable staff that process invoices. A vendor is not entered until the requesting department has provided the vendor's W-9 (TIN), Questionnaire (AA_1Form), and Business License (if applicable).The legitimacy of each vendor is determined by the information gathered via these forms.</p>	<p>Finance Department – Purchasing Division</p>
<p><b>17. Additional required procedures for new vendor validation:</b> Vendors providing only a PO Box should be required to provide a physical street address. Procedures should be performed to validate the vendors address and phone number, (e.g., Better Business Bureau, State Contractors License Board, Secretary of State website, etc.). The information gathered to validate the vendor should be documented and maintained in the vendor's data file.</p>			<p>It was discovered that determining "legitimate" vendors as only those that provide a street address as compared to a PO Box, created undue bias for the following reason:</p> <ul style="list-style-type: none"> <li>• Some local vendors and small business owners that work out of their home, as well as consultants, and other professional services that do the same, do not want their home address listed as a public record and therefore use only a PO Box.</li> <li>• Several large vendors such as corporate vendors only publish their address as a PO Box, even for tax purposes. In some cases this is because the PO Box represents a bank lockbox for payments.</li> <li>• This criterion is not valid for other means of doing business other than when a business is located within the City limits. For local vendor preference to be utilized, a vendor claiming a Pasadena presence is required to produce a street address within the City to be considered, as well as a business license. Other than this, for tax purposes, LLC, Corporation, DBA, etc., PO Boxes as accepted as legitimate.</li> </ul> <p>All attempts to obtain a street address for ALL vendors is the first priority. Finding that not to be available, a PO Box will be</p>	<p>Finance Department – Purchasing Division</p>



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			accepted and verified with other documents. Verification of all information is made by matching all information provided, including letterhead, insurance policies, website information, and all other documents provided.	
<p><b>18. Cross-reference vendors to the Vendor Master List prior to payment:</b> Vendors should be checked against the Vendor Master List prior to payment processing to ensure the vendor has been set-up in the system and vetted through the procurement process. Payment requests for vendors not found on the Vendor Master List should be followed-up with the requesting City Department for reasons why payment is outside of established vendor procurement policy.</p>			Munis functionality does not allow payment to be made without an established vendor. Munis has the functionality to process a “one time vendor payment,” however Accounts Payable does not use this function.	Finance Department
<p><b>19. Update and maintain the Vendor Master List:</b> The Vendor Master List should be continually reviewed, updated, and cleaned-up of inactive suppliers or one-time vendors.</p>			<p>The City concurs with this statement. Since the vendor list has just been compiled as part of the ERP implementation, a follow-up update has not yet occurred. This regular update has been included as part of the Purchasing Division’s regular work plan.</p> <p>VENDOR MAINTENANCE POLICY TO BE DEVELOPED: At or near July 1, and every year at the fiscal turnover, there will be performed annual “maintenance” for the Vendor Master consisting of:</p> <ul style="list-style-type: none"> <li>• A match of all vendors that have not conducted business with the City in the past 5 years as being assigned the status of “inactive” within the system.</li> <li>• The requirements to re-qualify all “inactive” vendor’s upon the request to return to active status.</li> <li>• The process of re-qualifying as determined by KPMG Recommendations #16 and #17.</li> <li>• The ability to change status on a vendor should remain solely with the Purchasing staff as was stated in KPMG</li> </ul>	Finance Department – Purchasing Division

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			<p>Recommendation #16 and with those same securities in place.</p> <p>This review will occur no less than annually. An audit of Form W-9s will be performed to insure that all required W-9s have been obtained and the 1099 flag is set correctly in Munis for each vendor.</p>	
<p><b>20. Establish written procedures for 1099 reporting:</b> Create, maintain, and have readily available process narratives which provide a procedural walk-through of the 1099 process, including vendor identification, evaluation, and reporting. Clearly delineate which processes are the responsibility of the Purchasing division (including 1099 vendor identification) and which process should be handled by Accounts Payable division (including 1099 issuance and reporting).</p>			<p>The City concurs with this recommendation and procedures are being completed and will be integrated into the Munis process. This will be completed prior to the issuance of 1099's for calendar year 2015. Part of the process for the first year of the Munis system is bridging the data from the first half of 2015 in the former PeopleSoft system and the current date in the Munis system.</p>	<p>Finance Department</p>
<p><b>21. Ensure 1099s vendors are set up in the system:</b> Ensure that 1099 vendors are setup correctly in the system to receive 1099 reporting. Care should be taken to properly evaluate the 1099 status for every vendor application at the time of set-up by referencing the applicant's W-9 form, Form AA-1 or vendor application document.</p>			<p>The City concurs with this recommendation and a complete review is being completed. This will be completed prior to the issuance of 1099's for calendar year 2015. Vendors will be identified by a field in the Munis system.</p>	<p>Finance Department</p>
<p><b>22. Require W-9 from all vendors:</b> Require all vendors to submit a W-9 or AA-1 Form with their vendor applications and verify the information submitted is accurate (e.g., using the IRS online verification system, contacting the vendor, etc.). Any vendors who fail to provide the required form or</p>			<p>All new vendors are required to submit a W-9 or AA-1 Form prior to being set up in the Munis system. Currently, a review is being conducted of all existing vendors to ensure that a W-9 is on file and updated in the Munis system. The review of existing vendors will be completed before the end of calendar year 2015 to ensure the data is accurate prior to the issuance of 1099's.</p>	<p>All Departments</p>

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information should not be set-up in the system as an approved vendor. Requiring W-9s before vendor set-up can help to avoid year end 1099 problems.				
<b>23. Update and maintain vendor 1099 reporting status:</b> Ensure that a mechanism exists to update the vendor information in the system and the vendor's 1099 requirement status is periodically updated and kept current.			The City concurs with this recommendation and a review will be conducted prior to the issuance of 1099's for calendar year 2015 and annually thereafter.	Finance Department
<b>24. Perform reviews prior to annual reporting:</b> The status of each 1099 vendor should be reviewed every December prior any reporting to the IRS to ensure the completeness and accuracy of the 1099 reporting data.			The City concurs with this recommendation and, at a minimum; an annual review will be conducted prior to the issuance of 1099's each year, including 2015. The goal is to conduct the review quarterly.	Finance Department
<b>25. Perform periodic audits:</b> Perform periodic audits to ensure the appropriateness and timeliness of 1099 reporting – vendors required to receive a 1099 should have been issued one.		8. Conduct regular W-9 compliance audits for all current vendors in the accounts payable system.	The City concurs with this recommendation and will implement audits under the Internal Audit Manager. The City is also conducting a review of previous years to determine if 1099's have been appropriately issued. This current review is still in progress and is anticipated to be completed by the end of 2015.	City Manager's Office
<b>26. Invoices should be matched to purchase orders:</b> The City should ensure that invoices are properly matched to the correct purchase orders and invoices that do not meet the City's policy requirements should not be processed for payment. Invoices over \$100 without purchase orders are in violation of the City's policies and procedures and may not be paid without a memo containing proper authorization.			The City concurs with the intent of this recommendation and the Munis system has checks and balances to correctly charge invoices against the proper Purchase Order. There are certain invoices that are exempt from Purchasing or that are paid directly against encumbered contracts instead of Purchase Orders. The exempt payment types include: <ul style="list-style-type: none"> <li>- Utility bills</li> <li>- Insurance premiums</li> <li>- Purchase or lease of real property</li> <li>- Acquisition of easement rights or similar property rights</li> <li>- Payments to the County, state, federal or other local</li> </ul>	Finance Department

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			<p>government entities</p> <ul style="list-style-type: none"> <li>- Organizations or grants (service, non-profit) and their program contractors</li> <li>- Legal services</li> <li>- Medical payments (Workers compensation)</li> </ul> <p>In all of these cases, the invoices are still processed through the Accounts Payable workflow system in Munis and proper authorization is required.</p>	
<p><b>27. Vendor must be processed through the purchasing function:</b> All vendors receiving payments from the City must go through the regular procurement process and comply with all purchasing policies and procedures, including expenditure thresholds and purchase requisition specifications. Specific to the Underground Utility Program, vendors may not bypass the procurement process by receiving payments as reimbursements.</p>			<p>When there is a request for goods, services, or labor as is defined by the Purchasing policy and is not exempt from it, requestors are required to submit an electronic requisition which is converted to a Purchase Order by the Purchasing Division. The Munis system functionality verifies requisition details such as available funds, budget checking and current contract prior to issuing the Purchase Order.</p> <p><u>All</u> vendors receiving payment are not processed through the Purchasing division or the formal purchasing process. A specific policy identifying the types of purchases identified as "Administrative Contracts" that would not go through the process was developed to ensure only specific types of payments are exempted. Examples of these are utility bill payments, travel reimbursement, real estate acquisitions, insurance premiums, etc.</p>	Finance Department
<p><b>28. Procurement through competitive process:</b> Whenever possible, procurement of goods or services should be made by a competitive bidding/lowest quote process, even when not expressly required, to ensure the most efficient use of City funds.</p>			<p>When there is a request for goods, services or labor as is defined by the Purchasing Policy and is not exempt from it, the Competitive Process as specified in Section 4.08 of the Pasadena Municipal Code is followed. The use of Purchasing Cards or other procurement methods for these types of payments has or is in the process of being discontinued. The task of implementing contracts for City-wide use to ensure the competitive process is scheduled to be completed by the end of the calendar year 2015.</p>	All Departments

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<p>29. <b>Segregation of duties:</b> The City should ensure that no employee should have complete control over the entire purchasing function. The responsibilities for purchasing, receiving, and approving payments for goods or services should be segregated and assigned among different employees. Currently, the Finance Department's Purchasing Administrator is head of the Purchasing and Accounts Payable divisions. In smaller organizations, it may not be feasible to separate Purchasing from Accounts Payable. However, as a best practice, Purchasing and Accounts Payable functions should operate separately from one another to ensure no one employee has conflicting duties and responsibilities.</p>			<p>In January the Accounts Payable duties were moved from the Purchasing Division to the Accounting &amp; Financial Analysis Division under the City Controller to segregate the duties from the purchasing process. The Finance Director is currently evaluating staffing and supervision to determine if this is the most effective segregation of duties. In the Munis system, each process has been designed so that no responsibility or duty is concentrated with one individual or department. The Department of Information Technology maintains the user rights access to ensure that employee permissions may not altered by anyone in the Finance Department.</p>	<p>Finance Department Department of Information Technology City Manager's Office (Internal Audit Manager)</p>
<p>30. <b>Validate payment request information prior to payment:</b> Accounts Payable staff should validate information on invoices prior to payment; such information includes purchase order numbers and amounts, service/item description, and vendor name, number, and address. Requests not properly completed or missing information should not be processed, but followed up on with the requesting City Departments.</p>			<p>System controls have been configured to expedite some validation tasks. For example, the system will reject duplicate invoices or Purchase Orders lacking sufficient funds available. The process of submitting invoices to Accounts Payable has been redefined with the Munis implementation and a folder structure has been established to ensure only properly coded and complete invoices are processed by staff. Invoices without complete information are sent back to the department in a separate electronic folder until revisions are made.</p>	<p>Finance Department</p>
<p>31. <b>Document review and approval of payment requests:</b> Accounts Payable staff should provide evidence indicating formal review and approval processes have been performed on submitted payment requests via proper documentation such as memos, e-mail, and signatures. If exceptional circumstances arise that are outside the</p>			<p>Only written justifications for exemptions are accepted. Additionally, all related documents are scanned in to the Munis Content Management system as part of the official payment record.</p>	<p>Finance Department</p>

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normal policies and procedures, documentation of approval from proper authorities must be attached. Verbal or oral agreements, authorizations, and understandings should not be accepted under normal circumstances.				
<p><b>32. Adhere to a chain of custody for invoice payment documents:</b> Accounts Payable should develop a closed-loop disbursement process within its own division. Invoices submitted for necessary Finance approval and signatures must subsequently be directly routed to Accounts Payable staff for processing without looping documents back to the City departments. Specifically, individuals submitting invoices may not have access to the invoices they submit until after disbursements have been processed and checks have been cut.</p>			<p>The City concurs with the intent of this item. All invoices are submitted electronically and routed by the Departments for review and coding prior to being processed by Finance or Accounts Payable staff. Once Finance takes possession of the invoice, Accounts Payable processes the invoice; the electronic documents are not released or available to the originating Department.</p>	<p>Finance Department Department of Information Technology</p>
<p><b>33. Accept only original documents with original signature authorizations:</b> Only invoices with documentation containing original wet signatures should be processed for payment. Invoice payment requests may not be processed based off of photocopies of originals nor should documentation containing white out be processed. Accounts Payable should strive to be diligent in examining invoice supporting documentation by checking for authorization signatures.</p>			<p>All invoices are now received electronically in PDF format and approvals are made electronically in the workflow portion of Munis. The only original wet signature documents received by Accounts Payable are Check Requests and these must be originals with original signatures from approved staff members.</p>	<p>Finance Department</p>
<p><b>34. Implement additional internal controls over invoice process:</b> The City should</p>	<p>2. Control procedures for the ERP should be developed, documented and</p>	<p>9. Ensure that appropriate internal controls, including general controls, application controls,</p>	<p>Working drafts of processes and procedures relative to the Munis System have been developed and are under review. The Task Force</p>	<p>City Manager's Office (Internal Audit Manager)</p>

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<p>develop embedded internal controls to ensure all invoices processed for payment are legitimate transactions. Examples of internal controls include:</p> <ul style="list-style-type: none"> <li>- Multi-levels of review to ensure adequate supervision of work performed in-house quality control group that conducts testing on random sampling of processed payments</li> <li>- Technology-assisted automated functions that prevents payments of invoices with mismatched, exhausted, and/or expired Purchase Orders, mismatched vendor names and IDs, unauthorized amount thresholds, etc.</li> <li>- Proper segregation of duties between Purchasing and Accounts Payable functions</li> <li>- Glaring discrepancies or suspicious activity with one invoice will trigger in-depth further review of all invoices submitted by the same employee or for the same vendor</li> <li>- Maintain active list of vendors or employees involved with suspicious activities and take extra care when processing invoices related to these</li> </ul>	<p>monitored.</p> <p>3. Accounting policies and procedures should be completed for the ERP, as well as for all manual processes, then updated and monitored continuously, with changes made as necessary from time to time.</p> <p>15. Accounts payable policies and procedures should be reviewed, updated and strengthened, and should include:</p> <ul style="list-style-type: none"> <li>a. A requirement that there be adequate supporting documentation – no verbal approvals permitted;</li> <li>b. Documentation of adequate diligence regarding payables; and</li> </ul> <p>A prohibition against original documents leaving the payables department.</p>	<p>approvals and authorities, are implemented into the new financial information software conversion.</p>	<p>received these for review in September 2015. These processes and procedures will work in conjunction with the City's financial policies (eight of which are listed in the next item below) for sound fiscal management.</p> <p>Eight of the City's financial policies were reviewed and updated in October 2015. These were:</p> <ul style="list-style-type: none"> <li>-Purchasing Policy</li> <li>-Contract Management Policy</li> <li>-Account Payable Policy</li> <li>-Accounts Receivable Policy</li> <li>-Cash Handling Policy</li> <li>-Donation /Gift Policy</li> <li>-Fee Waiver Policy</li> <li>-Purchasing Card Policy</li> <li>-Investment Policy (reviewed annually and approved by the City Council)</li> </ul> <p>Each of these policies is a living documented that will be reviewed on an annual basis and updated if necessary, as well as, periodically as review and update are warranted. These policy documents are not Munis functionality specific.</p> <p>The following additional policies are being considered and assembled:</p> <ul style="list-style-type: none"> <li>- Labor Cost Accounting</li> <li>- Fixed Assets</li> <li>- Capital Projects</li> <li>- General Ledger</li> <li>- Month-end/Year-end</li> <li>- Self Audit and Internal Audit</li> <li>- Revenue Review</li> </ul> <p>As part of the implementation of the Munis system, maintaining the inherent segregation of duties and internal controls available to us was a priority. As we continue to work through operational issues, we are mindful of the internal controls and that we do not bypass the integrity of the Munis system. Staff has completed a comprehensive update of the Manual of Personnel and</p>	<p>Finance Department</p>

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<p>parties</p> <ul style="list-style-type: none"> <li>- Employees should disclose, on an ongoing basis, any personal or financial relationships leading to potential conflicts of interest</li> <li>- Internal audit function should maintain independence and ensure relationships with colleagues do not deter or inhibit them from performing their job duties</li> </ul>			Administrative Review which includes many of the financial policies.	
<p><b>35. Re-establish an Internal Audit Department:</b> The City should consider re-establishing an internal audit function, whether it is a complete internal audit department or a senior internal audit director who can provide oversight in coordinating and outsourcing audits to independent third party contractors. We were advised by the Human Resources Department that recent efforts have been underway to hire a senior internal audit director or equivalent.</p>	<p>23. All City revenue fund balance should be regularly reviewed and forensically tested for discrepancies.</p>		<p>In August 2014, the City Council approved an Internal Audit Manager position in the City Manager’s Office who will oversee contractors retained to perform special city-wide audits per the Audit Work plan. The Internal Auditor position has been filled as of November 9, 2015.</p> <p>In addition to the recruitment of the Internal Auditor, in 2015 the City hired a new firm, Lance, Soll &amp; Lunghard, LLP, to perform the Annual City Audit. Beginning with the audit of the 2014-15 fiscal year, the annual audit has an expanded scope to include all funds and an increased sample size. This expanded scope will provide an additional layer of review and audit of City funds on an annual basis.</p> <p>Staff presents to the Finance Committee a quarterly update on all major funds. In addition, staff will expand on the definitions of the special revenue funds so that its purpose is easily understood.</p>	<p>City Manager’s Office (Internal Audit Manager) Finance Department</p>
<p><b>36. Conduct surprise audits:</b> Department Directors should implement a process of surprise operational compliance audits in connection with the Internal Audit function. Surprise audits can be an important fraud prevention mechanism in deterring potential</p>			<p>The City concurs with this recommendation. The recently hired Internal Auditor will include this in her work plan.</p>	<p>City Manager’s Office (Internal Audit Manager)</p>



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<p>fraudulent employee behavior. Areas of focus in a surprise should include:</p> <ul style="list-style-type: none"> <li>- Accounts Payable: Audit for fictitious vendors, vendors should be researched to ensure that they exist and represent legitimate organization. Red flags include PO Box addresses, missing required vendor set-up documents, or missing vendor data in the system.</li> <li>- Payroll: Audit for ghost employees on City payroll by reviewing payroll report or W-2s for any unfamiliar names to ensure individuals are actual employees.</li> </ul>				
<p><b>37. Establish system of internal audit record keeping:</b> The City should establish a formal internal audit records keeping system and follow-up process. Departments found to be deficient in any areas or processes should be required to submit corrective action plans and additional internal audits may be scheduled as necessary.</p>	<p>6. An Internal Audit Manager should be hired without further delay and consideration should be given to that individual having a reporting relationship to the Audit Committee of the City Council.</p>		<p>Recruitment for an internal auditor has concluded and this position was filled on November 9, 2015. The Internal Auditor is assigned to the City Manager's Office and will present to the City's Audit Committee an Annual Work plan. The Internal Audit Manager will also monitor all departmental audits and verify that recommendations were implemented.</p>	<p>City Manager's Office (Internal Audit Manager)</p>
<p><b>38. Perform fraud risk assessments:</b> The City should perform periodic reviews to identify instances where circumvention of standard procedures could occur and evaluate whether mitigating controls exist and are effective. Key components to this step include mapping existing controls to</p>	<p>7. The hiring of a vendor to conduct a city-wide fraud risk assessment should also proceed without further delay and the work product should be delivered to the City Manager on an initially confidential basis.</p>		<p>An RFP for a Fraud Risk Assessment was issued and 12 proposals were received. On October 26, 2015 the City Council awarded a control to Macias Gini &amp; O'Connell for perform this work. The goal is to have an assessment completed on each city department. The first phase will include the following departments: Public Works; Finance; Human Services and Recreation; Housing; Transportation and Public Health. This work is expected to be completed by June</p>	<p>City Manager's Office (Internal Audit Manager) Finance Department</p>

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<p>prioritized fraud risks, assessing the degree to which particular fraud risks are mitigated by existing controls, and identifying what potential remediating controls are necessary, if any.</p>	<p>8. Future external audits should be conducted on a risk basis with emphasis on fraud detection and prevention.</p>		<p>2016. During her first week the Internal Audit Manager met with MGO to begin work on the first department.</p> <p>In addition to the Fraud Risk Assessment, in 2015 the City hired a new firm, Lance, Soll &amp; Lunghard, LLP, to perform the Annual City Audit. Beginning with the audit of the 2014-15 fiscal year, the annual audit has an expanded scope to include all funds and an increased sample size. This expanded scope will provide an additional layer of review and audit of City funds on an annual basis.</p>	
<p><b>39. Establish investigation protocols and procedures:</b> In addition to the current HR Department function which investigates administrative matters, the City should consider designing and implementing an investigative process, specific to Internal Audit, to respond to allegations of fraud that includes the following elements:</p> <ul style="list-style-type: none"> <li>- Protocols for responding to initial allegations (e.g., decisions on internal and external notifications, selecting an unbiased and qualified internal or external investigation team, etc.);</li> <li>- Standard investigative procedures exist for those conducting the investigation (e.g., steps required to preserve attorney-client privilege, interviewing and other investigative techniques, documentation requirements, etc.); and</li> <li>- Protocols for reporting</li> </ul>			<p>The City concurs with this recommendation and has hired an Internal Auditor Manager. Establishing protocols and procedures will be part of the immediate work plan of this position.</p> <p>The protocols developed will likely include both the City Attorney's Office and the Police Department depending on the type of response that is required.</p>	<p>City Manager's Office (Internal Audit Manager) Human Resources City Attorney Police Department</p>

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findings from the investigation.				
<p><b>40. Additional employee evaluations:</b> In addition to the annual performance review, consider conducting informal employee evaluations on a more frequent basis to evaluate employee responsibilities, background and qualifications relative to their job description. Determine if the employee is qualified to perform the job duties assigned and if the level of responsibilities is appropriate for the job description.</p>	<p>9. A mandatory time away from the job program for certain employees should be considered.</p> <p>21. Performance appraisals should follow and be closely related to competency development.</p>		<p>The City is committed to annual evaluations. Additionally, positions are being identified that will be reviewed semi-annually.</p> <p>Mandatory time away policies are widely regarded as an important safeguard against crimes like embezzlement. Such crimes to be successful over time usually require the constant presence of the wrongdoer so that others do not come across evidence of the misdeeds. Staff's challenge is that we have ten bargaining groups each with their own memorandum of understanding (MOU) and currently they do not permit such a policy. However, as the MOU's open up for negotiation, we will look at this or other ways in which the intent of time away from your job could be met.</p>	All Departments
<p><b>41. Enhance employee supervision and oversight requirements:</b> Establish effective employee supervision by maintaining adequate oversight of employees' tasks. Supervisors and managers should conduct independent and adequate review of employees' work and note regular deficiencies.</p>	<p>1. A stronger management tone emphasizing the importance of internal controls and compliance with such controls should be establish and maintained.</p> <p>5. As a result of the advent of the ERP and the hiring of a new Finance Director, the City's finance organizational structure should be reviewed to assure appropriate supervision, staffing and segregation of duties.</p>		<p>As part of the Fraud Risk Assessments, each department will be reviewed for instances where one employee is responsible for an entire program and/or service process. Once identified, a segregation of functions will be implemented. Additionally, Department Directors have been directed to review staffing levels, supervision and assigned tasks to determine if reorganization is necessary to improve oversight.</p> <p>The City Manager continues to emphasize the importance of internal controls and compliance with such controls not only to Department Directors but directly to staff. This is included as part of the Performance Plan for all Department Directors. The various reports and recommendations were distributed and discussed with staff at all levels and in all departments in October and/or November to re-emphasize the importance of internal controls and compliance with such controls.</p> <p>The new Finance Director is reviewing the organizational structure of</p>	All Departments

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			the Finance Department including staffing needs to assure appropriate supervision, staffing and segregation of duties. A recommendation for additional staffing as part one of reorganizing some Finance Department functions will be presented to the Finance Committee and City Council prior to the end of 2015 for consideration.	
<p><b>42. Conduct regular annual training programs:</b> Departments should conduct regular annual training programs for all employees to emphasize and communicate adherence to the City’s policies and procedures. Employees should be required to sign an acknowledgment accepting compliance of their jobs’ roles and responsibilities with documentation maintained by the Human Resources department. Failure to comply will/may result in disciplinary actions up to and including termination.</p>			<p>The City’s plan going forward includes two approaches. In addition to the Citywide trainings, we will need to 1) target the employees that routinely prepare requisitions and/or bid specifications for their respective departments. We call this group the “Procurement Group” which includes approximately 60 employees. Separately, 2) we will continue with the Citywide trainings to fulfill the Finance Department work plan. Below are the specific trainings centered around preparing purchase requisitions, bid specifications, and the Accounts Payable process held by Finance in 2015:</p> <ul style="list-style-type: none"> <li>• January 12, 2015 – Human Resources</li> <li>• January 16, 2015 – Human Resources</li> <li>• February 4, 2015 – Citywide Training</li> <li>• May 20, 2015 – Human Services &amp; Recreation Department</li> <li>• November 5, 2015 – Public Works</li> </ul>	All Departments
<p><b>43. Endeavor to provide new hiring training and refresher training:</b> Provide new hire training programs to newly hired employees and refresher training programs to current employees on a periodic basis to communicate appropriate job responsibilities and process protocols according to the City’s policies and procedures. Although training often times is conducted as on-the-job training, at no point should training be taught based on unwritten historical practices of the department which are inconsistent with the City’s own policies and procedures.</p>	<p>20. “A commitment to competence” program should be developed and periodic training in functional competence should be required of all employees.</p> <p>22. The Pasadena Code of Ethical Standards should be regularly reviewed, updated and continuously reemphasized. All employees should undergo annual ethics training and annual certification should be required. Vendors and contractors should also certify to their knowledge of the Code and their compliance with it in dealing with the</p>	<p>3. Conduct training on the new policies and provide regular information updates for all staff that have a role in the underground utility program so that each person understands how they contribute to the intended outcome.</p>	<p>The City is committed to properly training new employees. A new “Onboarding Program” for new hires will be implemented. Additionally the City has expanded and enhanced our internal training program.</p> <p>Human Resources coordinates on going Citywide training opportunities and departments have ongoing training for all employees.</p> <p>The Code of Ethical Standards has recently been updated and reissued and that the City Manager regularly discusses elements of the Code with City employees. Under the new Human Resources Director options will be evaluated to best communicate our code of ethics to our large employee base. One thought is to alternate this training with the mandatory Prevention on Sexual Harassment.</p>	Human Resources All Departments

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	City.		All impacted departments have reviewed Management Partners' process maps and list of recommendations with staff involved in the UUP so that everyone understands complete program and various roles.	
	4. Full implementation of the ERP should be completed as soon as feasible.		Implementation of the core Financial Modules of the Munis system took place on July 1, 2015. The remaining modules including Human Resources, Payroll and Business License will take place between Spring 2016 and January 2017.	Department of Information Technology Human Resources Finance Departments
	10. The City's response to the KPMG comments needs greater clarity and follow-through.		The City will continue to expand on the response and provided updates regarding the implantation progress regarding all the reports presented. This update is the next step in updating the City Council and community on the steps taken to date and those planned for the future.	City Manager's Office
	<p>13. Information regarding the City's top 100 vendors should be available to the public in dashboard format, with relevant information concerning the services or products being provided vendors and with links to contracts and purchase orders.</p> <p>14. Vendor purchasing should be tracked on a real time basis and the tracking reports should be publicly available.</p> <p>16. City financial statements and financial information should be made easier to access and more understandable and readily searchable.</p> <p>17. Simplified data should be made</p>		<p>The City of Pasadena's Munis system is designed to assist with the gathering and dissemination of information related to vendor activity, purchasing, and other financial information in detailed and summary information. Staff is currently identifying information that can readily be used in dashboards and the more we use the Munis system. As we collect more data in Munis, the built-in dashboard and reporting methods will become more valuable and useful.</p> <p>Currently all contracts over \$75,000 must receive City Council approval and are public but making all payment information in a more easily accessible format is being explored.</p> <p>The City publishes a large number of financial reports currently available on our website, however it was not in one easy to locate place on the city's website. For example the Comprehensive Annual Financial Report, Operating Budget, Budget in Brief, and Quarterly Investment reports are all under the Finance webpage, but the Capital Improvement Program budget in under the Public Works.</p>	Department of Information Technology Finance Department

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	<p>available, perhaps in the formats of dashboards or graphs, and other forms of “Popular” or “community” financial information should be considered for use by the City.</p> <p>18. Tools that provide insights into a city’s financial health should be utilized and the results made available to the public.</p> <p>19. The City’s Web Site and other places where City financial information is presented should include educational information such as definitions of technical terms to assist the public in interpreting the information.</p>		<p>Staff will publicize the availability of these reports and make this information accessible over a variety of media. A page on the City’s website is being compiled that will serve as the central point to disseminate all the financial information above along with new information that is being developed. This singular page will provide greater access to the information by hosting it all in one location that is easy to find.</p> <p>Currently the Finance webpage has a section titled Financial overview which does provide a high level overview of the city’s reserves, debt, assets versus liability, etc. Expanding on this section to provide enhanced education on financial information is a good suggestion and staff will review as part of the FY 2017 budget process.</p>	
	<p>24. All avenues for recovery of the funds taken in the Embezzlement should be pursued, including litigation if necessary.</p>		<p>The City has made a claim for recovery of most of the embezzled funds under applicable insurance policies. All reasonable efforts have been made to recover these funds to date and will continue to be made until all avenues have been exhausted or recovery is made.</p>	<p>City Attorney’s Office City Manager’s Office</p>
	<p>25. Insurance coverage should be reviewed for adequacy.</p>		<p>City insurance coverage is renewed annually by the Risk Management Division and then an agenda report is submitted to the City Council with recommendations for approval to place the insurance coverage with various insurers. However, the Task Forces recommendation reminds staff of the importance of having adequate insurance coverage so for next year staff will engage a third part to do an analysis of the city’s coverage and make recommendation prior to renewal.</p>	<p>City Attorney’s Office (Claim Coordinator)</p>
	<p>26. An on-going, citizen-based Audit Advisory Committee could provide substantial value to the City and the City Council should consider such a body.</p>		<p>The City Council Audit Committee has discussed the idea of how some type of citizen-based involvement in review the audit plan, the annual audit and potentially other audit related matters.</p>	<p>City Council</p>

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		<p>12. Review the goal of the UUP to determine how much of Pasadena’s utilities are desired to be undergrounded.</p> <p>13. Analyze the financial impacts of changing the undergrounding goal to determine if and when the surtax should be discontinued. Conduct a legal analysis to identify the legal impacts of changing the scope of the program and/or an end to the surtax.</p>	<p>Recommendations presented to the Municipal Services Committee on October 13, 2015. Staff will return to the Committee in January 2016 with additional information requested.</p> <p>Recommendations presented to the Municipal Services Committee on October 13, 2015. Staff will return to the Committee in January 2016 with additional information requested.</p>	Municipal Services Committee