



# Independent Auditors Report on Applying Agreed Upon Procedures

April 6, 2016

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## Overview of Audits Conducted

- Internal Control Over Financial Reporting on Compliance
- City-wide Financial Statement Audit
- Investment Portfolio Review
- Appropriation Limit Calculation Review
- Housing Successor Compliance
- Single Audit - Federal Grants
- Trip Reduction (AB2766) Fund Audit



## Additional Audits – Agreed Upon Procedures

- Cash Receipts Procedures
- Wire Transfer Procedures
- Bank Reconciliation Procedures
- Vendor Contracts and Payments
- Inventory Procedures
- Purchasing Procurement and Disbursement Procedures in the Department of Water and Power and Maintenance Services



Overall no findings were noted in the following audits:

- Cash Receipting
- Wire Transfers



Findings were noted in the following areas:

- Bank Reconciliations
- Vendor Contracts and Payments
- Inventory Procedures
- Purchasing Procurement and Disbursement Procedures in the Department of Water and Power and Maintenance Services



CPAs AND ADVISORS

## **Bank Reconciliations**

### **Procedures Performed:**

- Reviewed four out of twelve months of the bank reconciliations.

### **Finding:**

- Supporting Deposit in Transit (DIT) did not tie to reconciliations for two of the four months tested.

### **Recommendation:**

- Report reconciling items separately in its own category.

### **City's Response:**

- Other reconciling items are to be presented separately effective March 2016.



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## **Vendor Contracts and Payments**

### **Procedures Performed:**

- Reviewed current Purchasing Policy (the Policy).

### **Finding:**

- The Policy was last updated in January 2012.

### **Recommendation:**

- Update the Policy to reflect recent changes in purchasing procedures and personnel restructuring.

### **City's Response:**

- Purchasing is currently reviewing and updating the City's Purchasing Policy and Procedure Manual to encompass organizational, budgetary, procedural, and technological changes.



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## **Vendor Contracts and Payments (continued)**

### **Procedures Performed:**

- Reviewed the City's bidding procedures.

### **Finding:**

- Bidding has been historically performed at the departmental level.

### **Recommendation:**

- Centralize bidding process within Purchasing in order to avoid conflict of interest and ensure compliance.

### **City's Response:**

- Purchasing is leveraging technology in response to the need of centralizing the task of conducting bids. BidSync will be implemented to allow Purchasing to effectively manage all bids throughout the City.



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## **Vendor Contracts and Payments (continued)**

### **Procedures Performed:**

- Reviewed the City's exception to bidding and sole source procedures.

### **Finding:**

- Large amount of sole source exceptions used by DWP.
- Lack of public contest process or formal review and approval by Council.

### **Recommendation:**

- Provide public forum or notice board to allow public access and contest.
- Standardize procedures for exception to bidding and sole source.

### **City's Response:**

- The City has subscribed to a web-based government procurement intelligence platform, SmartProcure, in response to the need of providing public access to the City's procurement activities, including sole source information. The City is also updating its Purchasing Policy to standardize the process of granting exception to bidding and sole source.



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## **Vendor Contracts and Payments (continued)**

### **Procedures Performed:**

- Reviewed the City's policies and procedures on blanket purchase orders.

### **Finding:**

- Excessive amount of blanket purchase orders are used.
- Lack of bidding procedures for blanket PO's with individual transactions under \$10,000.

### **Recommendation:**

- Implement policies and procedure to prevent misuse of blanket PO's.

### **City's Response:**

- Purchasing is currently updating its policy and procedures manual to standardize the process of issuing blanket PO's and clarify the use of them. Bidding requirement will be specified in the policy to ensure compliance with municipal codes and state/federal law.



CPAs AND ADVISORS

## **Vendor Contracts and Payments (continued)**

### **Procedures Performed:**

- Selected sample transactions related to accounts payable process and performed test of attributes.

### **Finding:**

- Lack of receiving report and proper segregation of duties.
- Lack of review of changes to vendor master file.

### **Recommendation:**

- Implement receiving function and control over vendor master file.

### **City's Response:**

- Finance will program and utilize the receiving function of the financial system, and enforce a 3-way matching (PO, Invoice and Receiving) to ensure proper control over payment transactions. With the launch of accounts payable workflow in February, invoice records are “locked” upon approval to prevent changes to vendor master file before payments are made.



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## **Inventory Procedures**

### **Procedures Performed:**

- Reviewed warehouse procedures and observed warehouse operations.

### **Finding:**

- Lack of proper control due to insufficient staffing level at the warehouse.
- Lack of control of afterhours access to the warehouse.

### **Recommendation:**

- Inventory purchase should run through Purchasing.
- Personnel receiving inventory should not be conducting inventory count and/or adjusting system records.

### **City's Response:**

- Admin Services and Maintenance Services departments are working together revising the warehouse standard operating procedures (SOP). The SOP will allocate responsibilities between the two departments to ensure proper control is in place. Current SOP addresses control over afterhours access, Maintenance Services will enforce these procedures immediately.



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## **Inventory Procedures (Continued)**

### **Procedures Performed:**

- Reviewed Corona Stores order process and Asset Works system.

### **Finding:**

- Lack of minimum order level control.
- Inventory value recorded in Asset Works differs from invoice amount.

### **Recommendation:**

- Establish and monitor minimum order levels.
- Use inventory ordering system that integrates to the financial system.

### **City's Response:**

- Purchasing will take over the responsibility of ordering inventory items, and is currently evaluating the use of a new module (Stores) of the City's core financial system. Re-order point can be configured in Stores and attached to all inventory items, which can be monitored by warehouse. Items received will be recorded and matched to the invoice and receiving report.



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## **Inventory Procedures (Continued)**

### **Procedures Performed:**

- Performed walkthrough of the warehouse's inventory count process.

### **Finding:**

- Non-inventory items were observed.
- Physical inventory variances identified during the testing.
- Lack of safeguarding of inventory/assets.

### **Recommendation:**

- Move non-inventory items to inventory.
- Standardize procedures for disposal of obsolete items.
- Perform periodic physical count throughout the year.

### **City's Response:**

- Non-inventory items are goods that were ordered and expensed on current or past capital projects. The City is evaluating the effectiveness of its current practice of ordering goods outside the project contract. Maintenance Services is taking the lead on revising the warehouse SOP, which will standardize the procedures of disposal of obsolete inventory and periodic counts.



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## **Purchasing Procurement and Disbursement Procedures in the Department of Water and Power and Maintenance Services**

### **Procedures Performed:**

- Reviewed the process of purchase requisition and purchase order issuance.

### **Finding:**

- Lack of proper coding of expenses on the PO.

### **Recommendation:**

- Expense coding should be reviewed and approved and verified against budget prior to the issuance of PO.

### **City's Response:**

- Currently, expense coding was not required for blanket purchase orders. However, the City launched a new budgeting process which will require most PO's to be encumbered.



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## **Purchasing Procurement and Disbursement Procedures in the Department of Water and Power and Maintenance Services (Continued)**

### **Procedures Performed:**

- Selected sample transactions related to accounts payable process and performed test of attributes.

### **Finding:**

- Account coding on PO did not match to the coding used for invoice payment.

### **Recommendation:**

- Proper account coding should be done during the purchase requisition.

### **City's Response:**

- With the implementation of a new budgeting process, as well as the revision of the City's purchasing policy, proper account coding will be required at the time the requisition is submitted. Budget check will also be performed before issuing the PO.



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## **Purchasing Procurement and Disbursement Procedures in the Department of Water and Power and Maintenance Services (Continued)**

### **Procedures Performed:**

- Selected sample transactions related to the receiving of goods and performed test of attributes.

### **Finding:**

- Lack of proper receiving procedures.

### **Recommendation:**

- Implement policy and procedure to properly document receipt of goods and services and ensure proper segregation of duties.
- Tag asset purchase for proper capitalization.

### **City's Response:**

- In March, Finance worked with the financial system consultants to program the receiving function to the accounts payable process. Items identified as capital asset are tagged and will be receipted through the newly implemented receiving function.



## Looking To 2016-17

- Additional Scope of Services
  - Expanded review of internal controls for accounting and reporting at department level.
  - Operational review of effectiveness, efficiency, and economy of operation.



Thank you



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Questions?

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