

**ASSESSMENT OF THE CONTROLLER'S OFFICE
OF THE CITY OF PITTSBURGH
PROJECT REPORT**

MARCH 13, 2009

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March 13, 2009

Honorable Michael Lamb
Controller
City of Pittsburgh
414 Grant Street
Pittsburgh, PA 15219

Mr. Scott Kunka
Director of Finance
City of Pittsburgh
414 Grant Street
Pittsburgh, PA 15219

Dear Controller Lamb and Mr. Kunka:

The Binkley Kanavy Group, LLC (BKG) is pleased to submit our project report that summarizes our assessment of the internal controls and other selected processes of the Controller's Office of the City of Pittsburgh (City Controller's Office), in accordance with our December 17, 2008 Professional Services Agreement (Agreement) with the City of Pittsburgh (City).

This project report consists of four sections as discussed below.

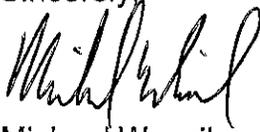
- **Section I - Executive Summary:**
This section notes our overall recommendations to strengthen the internal controls of the City Controller's Office and to conform certain of its processes to established best practices. These overall recommendations encompass the common themes of the ninety-five individual recommendations detailed in Section III of this report.
- **Section II - Project Objectives, Scope, Criteria and Approach:**
The project's objectives, scope, utilized criteria and approach are discussed in Section II.
- **Section III - Observations, Exposures and Recommendations:**
This section details our specific observations, estimates of the potential financial exposure or risk of each observation and our related recommendations.

- **Section IV – Implementation Assessment:**

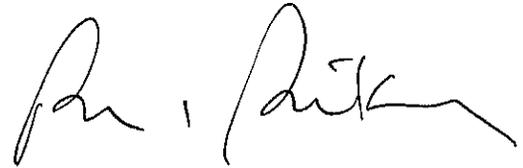
Section IV notes our prioritization of each reported recommendation to enable the observations to be methodically remediated. This section of the project report also details which recommendations we understand may be completely or partially addressed by the functionalities of the enterprise resource planning (ERP) system currently utilized by Allegheny County.

We appreciate the opportunity to have been of service to you and the courtesies extended to us by the management and staff of the City Controller's Office and the City's Department of Finance and would welcome the opportunity to further discuss the remediation of the reported observations.

Sincerely,



Michael Wassil
Director



Brian I. Binkley
Managing Partner

Section I - Executive Summary

A summary of BKG's overall recommendations to strengthen the internal controls of the City Controller's Office and to conform certain of its processes to established best practices is provided within this section.

These overall recommendations, which are presented in the order of the significance of their estimated financial exposure or risk, encompass the common themes of the individual recommendations detailed in Section III. The individual recommendations in Section III propose specific modifications to the managerial oversight of the functions of the City Controller's Office, the decentralized performance and manual nature of certain internal control activities and financial processes, the relevance of certain financial information within the City's PeopleSoft system and other internal control and financial procedures.

BKG's overall recommendations are as follows:

- ***Accounts payable, information technology and other internal controls that ensure the appropriateness of over \$160 million of cash disbursements and other transactions should be strengthened.***
- ***Consideration should be given to expanding the roles of the City Controller's Office and the City's ERP system in verifying vendor costs, controlling certain expenditures and monitoring vendor compliance with executed contracts.***
- ***The assignment of staff responsibilities should be reevaluated to mitigate several instances of inadequate segregation of duties and to enhance managerial oversight within most functions of the City Controller's Office.***
- ***The City's accounting system and processes should better accommodate its financial management needs by more frequently allocating certain non-department costs, using more relevant cost drivers to allocate such costs, enabling certain reimbursable project costs to be readily accumulated within the City's ERP system and implementing other specified recommendations.***
- ***Certain special revenue and other transactions, including encumbered project funds, should be reassessed.***
- ***Additional supervisory practices should be implemented within several functions of the City Controller's Office.***

Section I - Executive Summary (Continued)

- *Integration of the contract management, accounts payable, fixed asset and other workflows of the City Controller's Office and other departments could increase efficiencies.*
- *Certain general ledger, financial reporting, accounts payable and internal audit processes and internal control activities should be automated.*
- *Internal audit testing and documentation could be more comprehensive.*
- *Performance audit reports should be modified and consideration should be given to issuing reports for all completed fiscal audits.*
- *Consideration should be given to implementing additional best practices, including the utilization of purchasing cards.*

To obtain a further understanding of the above recommendations, and the manners in which the recommendations and related observations were developed, users of this report are encouraged to also review Sections II and III.

Section II - Project Objectives, Scope, Criteria and Approach

This section notes the project's objectives, scope, utilized criteria and approach.

Project Objectives

The objectives of this project were to critically assess the effectiveness of the internal controls of the City Controller's Office and to evaluate certain of its processes with specified best practices, considering the City's initiative to implement a new ERP system.

Project Scope

The effectiveness of the internal controls over the following significant transactions and processes of the City Controller's Office were assessed:

Accounts Payable Function:

- Vendor information maintenance
- Voucher processes
- Preparation of check disbursements and wire transfers
- Vendor inquiry processes
- Returned vendor check procedures

Contract Management Function:

- Contract information maintenance and execution
- Receipts of vendor bids
- Maintenance of encumbered purchase orders

Financial Reporting Function:

- Preparation of the City's Comprehensive Annual Financial Report (CAFR)
- Integration of component unit financial statements within the City's CAFR
- Quarterly reporting procedures

Section II - Project Objectives, Scope, Criteria and Approach (Continued)

Fixed Asset Function:

- Depreciation and amortization calculations and preparation of related general ledger entries

General Ledger Function:

- General ledger account maintenance
- Automated and manual general ledger journal entry processing
- Budget entry procedures
- General ledger account balance analysis
- Accounting period closing processes
- Generation and distribution of PeopleSoft and Invision reports

Information Systems Function:

- Establishment and maintenance of PeopleSoft user access rights

Project/Grant Accounting Function:

- Maintenance of accounts receivable chart of account information
- Processing of account receivable general ledger entries

Administrative Function:

- Maintenance of the City Controller's Office overall control environment
- Performance of risk assessments
- Communication and monitoring processes

Section II - Project Objectives, Scope, Criteria and Approach (Continued)

Our assessments of the fiscal and performance internal audit functions of the City Controller's Office encompassed evaluations of the following:

- The mission or objectives of the internal audit functions as defined by the City Controller's Office
- The development of audit plans for entities, departments and activities to be subjected to internal audits and the frequencies and rotational basis of such assessments
- The development of the scope of individual audit plans, approaches and required auditor communications
- The assignment of staff to individual audits based on the complexities of the audit and staff qualifications
- The understanding obtained of the entity or program to be audited, including its business and regulatory requirements, to assess audit risks and to design the nature, timing and extent of audit procedures or criteria
- The adequacy of the design of substantive and internal control audit tests
- Reviews of the implementation status of prior corrective action plans of the entity or department to be audited
- The sufficiency and appropriateness of audit evidence obtained from the performance of audit procedures
- The supervision and professional development of audit staff and the utilization of audit staff succession plans
- The development of audit reports and findings, including compliance with applicable reporting standards and the timeliness, accuracy and completeness of such reports
- Evaluations of audit staff independence, competence and qualifications
- The consideration of materiality, significance, fraud, illegal acts, and ongoing investigations
- The utilization of fraud, waste, and abuse reporting "hotlines"
- The use of technology in the performance of audits

Section II - Project Objectives, Scope, Criteria and Approach (Continued)

Additionally, the processing of certain real estate and self-assessed tax and Department of Public Works project and Community Development Block Grant cost information, which is provided to the City Controller's Office by other City departments, was assessed.

We were not engaged to and did not conduct an audit or perform attestation services in accordance with standards established by the American Institute of Certified Public Accountants on the City's financial statements, internal controls, regulatory compliance or other subject matters. Additionally, our engagement was not designed to and cannot be relied on to disclose errors, irregularities, or illegal acts, including fraud or defalcation.

Project Criteria

For each significant transaction and process evaluated, the effectiveness of the internal controls over such transactions and processes was assessed against the internal control guidance contained in the *Internal Control - Integrated Framework* report, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and applicable internal control audit standards issued by the American Institute of Certified Public Accountants. Based on our use of these sources, our assessment evaluated the proper authorization, segregation of duties, completeness, occurrence, accuracy, cutoff and other applicable internal control objectives for each significant transaction. We also reviewed the compliance of the processing of certain transactions with applicable portions of the City's Code of Ordinances (City Code).

Certain relevant portions of the *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit standards issued by the American Institute of Certified Public Accountants were utilized in evaluating the above processes of the fiscal and performance internal audit functions of the City Controller's Office.

Additionally, the following recommended practices from the Government Finance Officers Association (GFOA) were used to evaluate the significant processes of the above functions:

- *Improving Timeliness of Financial Reports*
- *Documentation of Accounting Policies and Procedures*
- *Improving the Effectiveness of Fund Accounting*
- *Preparing Popular Reports*

Section II - Project Objectives, Scope, Criteria and Approach (Continued)

- *Government Accounting, Auditing, and Financial Reporting Practices*
- *Using Websites to Improve Access to Budget Documents and Financial Reports*
- *Electronic Commerce*
- *Purchase Card Programs*
- *The Need for Periodic Inventories of Tangible Capital Assets*
- *Establishing the Estimated Useful Lives of Capital Assets*
- *Establishing Appropriate Capitalization Thresholds for Capital Assets*
- *Ensuring Control Over Non-Capitalized Items*
- *Establishment of an Internal Audit Function*
- *Encouraging and Facilitating the Reporting of Fraud and Questionable Accounting and Auditing Practices*
- *Business Preparedness and Continuity Guidelines*

While evaluating each significant process, opportunities to make such processes more efficient were assessed considering the City's initiative to implement a new ERP system.

Project Approach

In executing our service scope, we accumulated and assessed data by various methods including:

- Identifying and quantifying transactions processed by the City Controller's Office to ensure all significant transactions were comprehensively assessed
- Reviewing existing City Controller's Office job descriptions and organizational charts
- Performing interviews with City Controller's Office employees and management
- Flowcharting the aforementioned significant transactions and processes of the City Controller's Office

Section II - Project Objectives, Scope, Criteria and Approach (Continued)

- Estimating the potential significance or risks of any identified internal control weakness or other improvement opportunity
- Confirming our preliminary findings and the potential significance or risk of those findings with responsible City Controller's Office staff and management
- Interviewing representatives of Allegheny County to gain an understanding of which recommendations may be completely or partially addressed by the functionalities of the ERP system it currently utilizes

Section III - Observations, Exposures and Recommendations

1. *Internal Controls That Ensure the Appropriateness of Cash Disbursements and Other Transactions Should Be Strengthened*

No.	Function	Observation	Exposure	Recommendation
1.01	Accounts Payable	Supervisory reviews are not performed by function management on processed invoices.	Paid expenditures that exceed \$160 million annually may not be properly verified and improper cash disbursements may not be prevented.	Function management should consistently confirm that processed invoices are properly verified prior to payment.
1.02	Accounts Payable	Unused check stock is not secured.	Unauthorized and unrecorded cash disbursements may be made.	Unused check stock should be locked in a secure location which is restricted to only authorized personnel.
1.03	Information Systems	Evaluations of the appropriateness of PeopleSoft user access rights, considering the users' current employment status and job duties, are not periodically performed.	Unauthorized transactions may be processed and accountabilities for the processing of those transactions may not be able to be established. Also, the functioning of PeopleSoft system and the data it maintains may be compromised.	A reporting of PeopleSoft user access rights by department should be generated, disseminated and evaluated by City department directors at least annually.
1.04	Information Systems	PeopleSoft user access rights of employees on leaves of absence are not suspended.	Unauthorized transactions may be processed and accountabilities for the processing of those transactions may not be able to be established. Also, the functioning of PeopleSoft system and the data it maintains may be compromised.	A reporting of employees on leaves of absence should be provided to the City Controller's Office at least monthly, and PeopleSoft user access rights of employees on leaves of absence should be timely suspended.

Section III - Observations, Exposures and Recommendations (Continued)

1. Internal Controls That Ensure the Appropriateness of Cash Disbursements and Other Transactions Should Be Strengthened - Continued

No.	Function	Observation	Exposure	Recommendation
1.05	Information Systems	PeopleSoft user passwords are not required to be periodically changed, changed after receipt by a new user, or be of a required length and format.	Unauthorized transactions may be processed and accountabilities for the processing of those transactions may not be able to be established. Also, the functioning of PeopleSoft system and the data it maintains may be compromised.	PeopleSoft users should be prompted to, or automatically caused to, change their passwords at least every six months and after receipt by a new user. User passwords should be at least six characters in length, contain at least one letter, one number and one special character, and passwords should not be permitted to be reused.
1.06	Information Systems	The use of PeopleSoft "super user," or administrator user ids, by City Controller's Office staff is not reviewed.	Unauthorized transactions may be processed as "super users" can often circumvent established internal controls and manipulate data without an audit trail.	Processing events of "super user" ids utilized by the City Controller's Office should be logged, reported and reviewed by the Deputy Controller at least monthly.
1.07	Accounts Payable	Code keys that provide access to online banking applications and wire transfer capabilities are not secured.	Access to online banking applications may be unauthorized.	Code keys should be locked in a secure location that is accessible to only authorized users.
1.08	Accounts Payable	Lists of personnel authorized to approve vouchers, purchase orders and department initiated interfund wires should be maintained.	Paid expenditures that exceed \$160 million annually may not be properly authorized.	A list of personnel authorized to approve vouchers, purchase orders and department initiated interfund wires, should be developed with the City's Finance Department and utilized to verify that cash disbursements and wire transfers are authorized by appropriate personnel. This listing should be reviewed and updated at least annually and upon the turnover of designated personnel.

Section III - Observations, Exposures and Recommendations (Continued)

1. Internal Controls That Ensure the Appropriateness of Cash Disbursements and Other Transactions Should Be Strengthened - Continued

No.	Function	Observation	Exposure	Recommendation
1.09	Accounts Payable	The receipt and disposition of returned vendor checks is not monitored.	Returned vendor checks may be misappropriated.	Function management should maintain a log of returned vendor checks and monitor the disposition of such checks.
1.10	Accounts Payable	Timely reviews and approvals of warrant reports may not occur.	Paid expenditures that exceed \$160 million annually may not be timely approved.	Checks should not be generated until the warrant report is approved.
1.11	Accounts Payable	The verification, inspection and compliance review procedures that are expected to be performed on vendor invoices and employee expense reports are not documented.	Paid expenditures that exceed \$160 million annually may not be consistently subjected to adequate internal control procedures.	<p>Checklists should be developed which define the verification, inspection and compliance review procedures that should be performed on vendor invoices and employee expense reports. The checklist procedures should include reviews of the appropriateness of general ledger account codes assigned to invoice costs, verifications that authorized personnel have approved the invoice, charged mileage rates and distances are appropriate, unexpended contract funds are available for the invoice to be paid and other verification procedures.</p> <p>Performance of these procedures should be confirmed through supervisory reviews of processed invoices.</p>

Section III - Observations, Exposures and Recommendations (Continued)

1. Internal Controls That Ensure the Appropriateness of Cash Disbursements and Other Transactions Should Be Strengthened - Continued

No.	Function	Observation	Exposure	Recommendation
1.12	General Ledger	Listings of personnel authorized to approve department initiated journal entries are not maintained.	Unauthorized journal entries may be processed.	<p>A list of personnel authorized to approve department initiated journal entries should be developed and utilized to verify that journal entries are authorized by appropriate personnel.</p> <p>This listing should be reviewed and updated at least annually and upon the turnover of designated personnel.</p>

2. Consideration Should Be Given to Expanding the Roles of the City Controller's Office and the City's ERP System in Verifying Vendor Costs, Controlling Certain Expenditures and Monitoring Vendors

No.	Function	Observation	Exposure	Recommendation
2.01	Accounts Payable	<p>Responsibilities for verifying the receipt of invoiced goods and the receipt of vendor credits for returned items, and other adjustments are decentralized and performed by each City department.</p> <p>Additionally, purchase orders are not consistently received and utilized by the City Controller's Office to ensure all invoiced items were ordered.</p>	<p>Over \$160 million of invoiced expenditures are verified by City departments.</p> <p>The decentralized performance of these internal control activities may result in their inconsistent application.</p>	<p>The functionality of the ERP system that the City may migrate to should be evaluated to ensure it includes automated verifications of invoiced quantities and items with related purchase order and receiving transactions.</p> <p>The adequacy of the tracking of returned items and vendor credits by City departments should be assessed by City Controller's Office inspectors or the fiscal internal audit function.</p>

Section III - Observations, Exposures and Recommendations (Continued)

2. Consideration Should Be Given to Expanding the Roles of the City Controller's Office and the City's ERP System in Verifying Vendor Costs, Controlling Certain Expenditures and Monitoring Vendors - Continued

No.	Function	Observation	Exposure	Recommendation
2.02	Accounts Payable	Responsibilities for verifying the appropriateness of professional services invoices are decentralized among various City departments.	The 2008 budget for miscellaneous services expenditures exceeded \$17 million. The decentralized performance of these internal control activities may result in their inconsistent application.	For expenditures made in excess of established thresholds, City Controller's Office inspectors should confirm that engaged professional service firms fully performed their contracted responsibilities.
2.03	Accounts Payable	Invoice amounts can be split without detection.	Advertising and other vendor bidding requirements could be circumvented.	Submitted explanatory invoices should be aggregated by vendor and reviewed by function management to ensure required purchasing processes have not been circumvented.
2.04	Accounts Payable	Responsibilities for preventing the misuse or misappropriation of non-capitalized assets and supply inventories are decentralized among various City departments. Also, City Controller's Office inspections of invoiced items may not be timely and effective for goods that are quickly consumed.	Misuse or misappropriation of non-capitalized assets or supply inventories may occur. In 2008, budgeted expenditures for supplies and material exceeded \$6 million.	For expenditures made in excess of established thresholds, City Controller's Office inspectors or the fiscal internal audit function should consider conducting periodic counts of such assets and comparing those counts with the recorded quantities maintained by the departments.
2.05	Accounts Payable	Checks are mailed prior to sufficiency of available cash balances being confirmed.	Insufficient cash balances may exist which could cause violations of contract terms and banking fees to be incurred.	Checks should be disbursed after the sufficiency of available cash balances has been confirmed.

Section III - Observations, Exposures and Recommendations (Continued)

2. *Consideration Should Be Given to Expanding the Roles of the City Controller's Office and the City's ERP System in Verifying Vendor Costs, Controlling Certain Expenditures and Monitoring Vendors - Continued*

No.	Function	Observation	Exposure	Recommendation
2.06	Contract Management	Bids information received by the City Controller's Office is not reconciled to the terms of submitted contracts.	Improper bid modifications may not be detected by the City Controller's Office prior to contract execution.	For contracted amounts in excess of established thresholds, the City Controller's Office should consider reconciling received bid information to the terms of submitted contracts.
2.07	Accounts Payable	Employee benefit expenditures are paid prior to the sufficiency of available budgeted funds being confirmed.	In 2008, budgeted employee benefit expenditures exceeded \$120 million, and such expenditures may be paid in excess of budgeted amounts.	The sufficiency of available budgeted funds should be confirmed prior to the payment of employee benefit expenditures.
2.08	Contract Management	Expiration dates of vendor insurance policies, past prevailing wage violations and other contractual requirements are not monitored by the City Controller's Office.	Invoices may be paid to vendors who are not in compliance with certain contractual provisions.	The functionality of the ERP system that the City may migrate to should be evaluated to ensure it readily permits the tracking and monitoring of expiration dates of vendor insurance policies, past prevailing wage violations and other contractual requirements.
2.09	Accounts Payable	A list of recurring wire transfers is not maintained.	Debt service and other required wire transfers may not be timely made. In 2008, budgeted debt service expenditures exceeded \$87 million.	A list of recurring wire transfers should be prepared with the City's Finance Department to enable the timely processing of such payments to be monitored.

Section III - Observations, Exposures and Recommendations (Continued)

2. Consideration Should Be Given to Expanding the Roles of the City Controller's Office and the City's ERP System in Verifying Vendor Costs, Controlling Certain Expenditures and Monitoring Vendors - Continued

No.	Function	Observation	Exposure	Recommendation
2.10	Contract Management	The receipt of Form WH-347, weekly and final wage reports and living wage assistance reports, are not monitored.	In 2007, over \$42 million of capital project and community development block grant expenditures were incurred. Procedures to ensure engaged contractors comply with applicable prevailing wage requirements may not have been consistently preformed.	Engaged contractors that may be required to submit Form WH-347, weekly and final wage reports, and City departments that may be required to submit living wage assistance reports should be identified from executed contracts and contacted to determine the status of the submission of the applicable reports.
2.11	Accounts Payable	Reviews of the appropriateness of invoice routing information are not documented.	Reported expenditure totals may be distorted due to invoice amounts being recorded to incorrect general ledger accounts.	The internal control activities performed by invoice processors should include procedures to ensure that invoice amounts are coded to correct general ledger accounts.
2.12	Accounts Payable and Contract Management	The timely processing and status of contracts, requests to unencumber funds, explanatory invoices and invoices returned to City departments are not monitored.	Delays in the processing of such documents may be experienced and the misplacement of such documents may not be timely detected.	Consideration should be given to tracking the current custodian and status of such documents and the dates such documents were received, returned and processed.

Section III - Observations, Exposures and Recommendations (Continued)

2. *Consideration Should Be Given to Expanding the Roles of the City Controller's Office and the City's ERP System in Verifying Vendor Costs, Controlling Certain Expenditures and Monitoring Vendors - Continued*

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
2.13	Financial Reporting	The status of encumbered purchase orders are not monitored and timely closed.	The application of current year expenditures to purchase orders encumbered in prior periods, can distort the comparability of actual and budgeted financial results.	<p>Consideration should be given to tracking and making inquiries of City departments regarding the status of encumbered purchase orders that have been open for more than six months.</p> <p>Additionally, open encumbrances should be closed at least annually and upon the processing of the last invoice associated with an encumbered purchase order.</p>
2.14	Contract Management	Passed resolutions are not monitored.	Modifications to authorized expenditures may not be identified and invoices may be improperly paid.	Consideration should be given to monitoring passed resolutions to timely identify modifications to authorized expenditure amounts.

3. *The Assignment of City Controller's Office Staff Responsibilities Should Be Reevaluated to Mitigate Instances of Inadequate Segregation of Duties and to Enhance Managerial Oversight*

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
3.01	Administrative	Job descriptions are not up to date and may not be available for all positions.	Unintended or unauthorized activities may be performed by employees, and employee performance evaluations may not be effective.	Consideration should be given to reevaluating the appropriateness of each positions' duties, approval authorities, expected deliverables and education, training and professional licensure requirements and updating or developing related job descriptions.

Section III - Observations, Exposures and Recommendations (Continued)

3. *The Assignment of City Controller's Office Staff Responsibilities Should Be Reevaluated to Mitigate Instances of Inadequate Segregation of Duties and to Enhance Managerial Oversight - Continued*

No.	Function	Observation	Exposure	Recommendation
3.02	Accounts Payable	The abilities to create vendors, process and approve vouchers, and mail checks are not properly segregated.	Paid expenditures that exceed \$160 million annually may not be properly authorized.	The ability to create vendors and process and approve vouchers should be properly segregated.
3.03	General Ledger	Certain bank account reconciliations are prepared and approved by the same individual.	Reconciling items may not be adequately investigated and the reviews of bank account reconciliations may not be effective.	The responsibilities of preparing and approving bank account reconciliations should be properly segregated.
3.04	Fiscal Internal Audit	Fiscal internal auditors are supervised by general ledger function management personnel. Also, the responsibilities of a vacant audit manager position appear to be only partially being fulfilled by general ledger function management.	The fiscal audit function may not be perceived as being sufficiently independent, as it is being supervised by management personnel that are also responsible for overseeing the processing financial transactions that can be the subject matter of the fiscal audits.	Consideration should be given to reassigning management responsibilities for the fiscal audit function to personnel who do not supervise general ledger or financial reporting activities.
3.05	Contract Management	The responsibilities of receiving, time stamping, witnessing the opening of vendor bids, and maintenance of the time stamp machine are not segregated.	Vendor bids that are not submitted timely may not be disqualified.	The ability to manipulate the time stamp machine should be properly segregated from the responsibilities of receiving, time stamping and witnessing the opening of vendor bids.
3.06	Fixed Assets	Supervisory reviews of fixed asset transactions and related ledgers are not performed.	Incorrect or unauthorized fixed asset transactions could be processed and related balances could be misstated. Approximately \$387 million of fixed assets were maintained by the City as of December 31, 2007.	Consideration should be given to delegating the processing of fixed asset transactions, and the maintenance of related ledgers to subordinates of function management to enhance productivity and permit effective supervisory reviews to be performed.

Section III - Observations, Exposures and Recommendations (Continued)

4. The Accounting System and Processes of the City Should Better Accommodate Its Financial Management Needs

No.	Function	Observation	Exposure	Recommendation
4.01	General Ledger	Allocations of employee benefit and other non-departmental costs, and accruals of expenses are not recorded periodically.	<p>As the PeopleSoft general ledger system does not reflect actual departmental costs throughout the year, it can not be solely utilized to analyze operational costs and the appropriateness of any related departmental fees.</p> <p>Non-departmental costs, excluding debt service, budgeted in 2008 exceeded \$136 million.</p>	Allocations of non-departmental costs and accruals of expenses should be recorded at least quarterly.
4.02	General Ledger	The data used to annually allocate employee benefits, utilities and certain other non-departmental costs within the general ledger system are outdated.	<p>As the PeopleSoft general ledger system does not reflect actual departmental costs throughout the year, it can not be solely utilized to analyze operational costs and the appropriateness of any related departmental fees.</p> <p>Non-departmental employee benefits and utility expenditures budgeted in 2008 exceeded \$127 million.</p>	<p>The manners in which employee benefits, utilities and other expenditures are allocated should be reevaluated at least annually and consideration should be given to allocating such costs based on:</p> <ol style="list-style-type: none"> 1. current claim data and premium expenses by the department, 2. the square feet currently occupied by departments, 3. and other appropriate cost drivers.

Section III - Observations, Exposures and Recommendations (Continued)

4. The Accounting System and Processes of the City Should Better Accommodate Its Financial Management Needs - Continued

No.	Function	Observation	Exposure	Recommendation
4.03	Project/Grant Accounting	Project funds are not fully utilized with the PeopleSoft general ledger system.	<p>As the PeopleSoft general ledger system is not being fully utilized to consistently track project revenues and expenditures, several additional accounting systems are being maintained and certain reimbursable project costs are manually being accumulated which appears to be inefficient and increases the risk of errors.</p> <p>In 2007, special revenue and capital project fund revenues exceeded \$25 million.</p>	<p>To enable several additional accounting systems to be eliminated and the accumulation of certain project costs to be automated, consideration should be given to expanding the use of project funds on the PeopleSoft general ledger system or the ERP system that the City may install in the future.</p> <p>Additionally, should the City not implement the HRIS or payroll application of the ERP system, consideration should be given to further reviewing the manners in which salary and wage costs can be allocated to projects by the City's payroll outsourcer.</p>
4.04	General Ledger	Accounting systems other than the PeopleSoft general ledger system are utilized to account for the financial transactions of the City's pension trusts.	Accounting systems, in addition to the PeopleSoft general ledger system, are being maintained.	Consideration should be given to further assessing the migration of the accounting for the pension trusts to the ERP system that the City may install in the future.
4.05	General Ledger	Financial budgets are not prepared for all special revenue funds.	Budgetary controls may be inconsistently applied.	Consideration should be given to developing, adopting and monitoring financial budgets for all special revenue funds.
4.06	General Ledger	During the year, salary and wage expenditures that exceed budgeted amounts are recorded in "NSF" holding accounts and not salary expenditure general ledger accounts.	The ability to readily evaluate and report a department's recorded actual and budgeted salary amounts during the year may be hindered.	Should the City migrate to another ERP system, the use of "NSF" accounts should be discontinued.

Section III - Observations, Exposures and Recommendations (Continued)

4. The Accounting System and Processes of the City Should Better Accommodate Its Financial Management Needs - Continued

No.	Function	Observation	Exposure	Recommendation
4.07	Fixed Assets	Idle fixed assets do not appear to be tracked in the PeopleSoft system.	Fixed assets that are idle or in storage, may be unnecessarily purchased. Purchases of fixed assets exceeded \$5 million in 2007.	The functionality of the ERP system that the City may install in the future should be evaluated to assess its capabilities to track and provide purchasing personnel information on idle assets.
4.08	Financial Reporting	The timeframes for completing prior year end accounting closing processes exceeded the GFOA's suggested best practice of a week to ten days.	Timely year end financial information may not be readily available.	Consideration should be given to developing plans to complete accounting period closing processes within ten days and accelerating the performance of certain processes prior to year end.
4.09	Financial Reporting	The use of ad-hoc reporting capabilities is limited.	Department management may not be timely obtaining needed financial information.	The reporting capabilities of the ERP system that the City may install in the future and the ease of the use of such capabilities should be evaluated.
4.10	General Ledger and Accounts Payable	The lowest hierarchy of the general ledger account structure is not consistently used, causing the aggregation and segregation of reported expenditures to vary.	Reported departmental expenditures may not be comparable.	To ensure department expenses are consistently reported and aggregated in the same general ledger accounts, departmental expenditures should be consistently recorded within the lowest hierarchy of the general ledger account structure.
4.11	General Ledger	The PeopleSoft system does not accumulate and report departmental performance metrics.	Departmental performance measures may not be properly maintained and monitored, or may be accumulated in redundant systems.	The functionality of the ERP system that the City may migrate to should be evaluated to determine its capability to accumulate and report departmental performance metrics.

Section III - Observations, Exposures and Recommendations (Continued)

5. *Certain Special Revenue and Other Transactions Should Be Reassessed*

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
5.01	Project/Grant Accounting	Projects are not closed timely on the PeopleSoft general ledger.	Budgeted funds may remain encumbered for completed projects.	Expected project completion dates should be tracked, and inquiries regarding the status of projects open after such dates should be made of City departments. Additionally, encumbered funds for completed projects should be timely closed to reduce the possibility that costs not related to the project are charged to the project and its budget.
5.02	Project/Grant Accounting	Proceeds from sales of fixed assets purchased with special revenue funds are not credited to the appropriate special revenue fund or returned to the funding source when required.	Funding sources may require reimbursement for any fixed asset that was purchased with special revenue funds and subsequently sold. During 2007, over \$2.5 million of fixed assets were disposed of or written-off.	Fixed assets purchased with special revenue funds and proceeds from the sales of such assets should be tracked to ensure such proceeds are credited to the appropriate special revenue fund or returned to the funding source when required.
5.03	General Ledger	Periodic assessments of accounting estimates that determine recorded balances, such as the allowance for uncollectible real estate taxes, are not performed.	Adjustments to recorded balances may not be timely reflected in the City's reported financial results. As of December 31, 2007, recorded gross real estate tax receivable amounts exceeded \$28 million.	Function management should evaluate the accounting estimates used to determine recorded balances, such as the allowance for uncollectible real estate taxes, at least annually.

Section III - Observations, Exposures and Recommendations (Continued)

5. *Certain Special Revenue and Other Transactions Should Be Reassessed - Continued*

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
5.04	Fixed Assets	Reviews to identify capital leases and impaired or damaged fixed assets are not performed.	Reported fixed asset and debt balances may be misstated.	Annually, lease expenses should be analyzed and departments should be requested to review the condition of fixed assets and report any impairments or damages.
5.05	Project/Grant Account	Revenues from individual funding sources of grants and projects are not individually segregated on the PeopleSoft general ledger.	The PeopleSoft general ledger does not readily permit analysis of the appropriateness of City match amounts and other revenues.	The PeopleSoft general ledger chart of accounts should be modified to permit local, state, and federal revenue amounts to be individually segregated.

6. *Additional Supervisory Practices Should Be Implemented*

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
6.01	Administrative	Periodic staff performance evaluations are not performed.	Staff performance may not meet expectations and corrective actions may not be taken with respect to underperforming employees.	<p>Performance evaluations should be performed by function management against criteria stipulated in applicable job descriptions at least annually and such evaluations should be documented.</p> <p>Additionally, consideration should be given to evaluating the performance of internal audit staff after the completion of each audit.</p>

Section III - Observations, Exposures and Recommendations (Continued)

6. Additional Supervisory Practices Should Be Implemented - Continued

6.02	Administrative	The City's ethics policy and expectations of City Controller's Office staff to prevent and report instances of fraud, waste, and abuse have not been disseminated.	Instances of fraud waste and abuse may occur and not be timely reported.	The City's ethics policy and the expectations of City Controller's Office staff to prevent and report instances of fraud, waste, and abuse should be disseminated and staff compliance with such policies should be confirmed annually.
6.03	General Ledger	Accounting policies, responsibilities and closing processes are not documented.	Accounting activities and treatments may be inconsistently applied and closing processes may not be timely completed in the event of staff turnover.	A comprehensive accounting manual should be developed that details the City's accounting policies, responsibilities and closing processes. This manual should also be assessed and updated annually.
6.04	Fiscal and Performance Internal Audit	An internal audit charter and annual audit plans have not been developed.	The purpose, authority and responsibilities of the internal audit functions may be unclear, the ability to evaluate the productivity of those functions may be hindered and all relevant risks and exposures may not be addressed during the performance of audits.	Consideration should be given to developing an internal audit charter and annual audit plans that comprehensively assess the risks and exposures of the City and enables the productivity of the internal audit functions to be evaluated.
6.05	Fiscal and Performance Internal Audit	A quality control system over the internal audit functions has not been developed or documented.	The performance of internal audits may not meet commonly accepted audit quality standards.	The City Controller's Office should develop a quality control system to ensure its internal audit functions meet the independence, ethical, training and other requirements of commonly accepted audit standards. Compliance with such quality controls systems should also be monitored annually.

Section III - Observations, Exposures and Recommendations (Continued)

6. Additional Supervisory Practices Should Be Implemented - Continued

No.	Function	Observation	Exposure	Recommendation
6.06	Contract Management	Supervisory reviews of entered or deleted contracts are not performed by function management.	Incorrect, incomplete or unauthorized contract information could be processed and entered into the PeopleSoft system.	Supervisory reviews of entered or deleted contracts should be performed by function management to ensure incorrect, incomplete or unauthorized contract information is not processed and entered into the PeopleSoft system.
6.07	General Ledger	Analysis of general ledger account balances are not consistently subjected to a supervisory review.	Recorded general ledger account balances and reported financial results can be misstated.	Supervisory reviews of general ledger account balance analysis should be consistently performed by function management.
6.08	General Ledger	All processed journal entries are not approved by function management.	Incorrect and unauthorized journal entries can be processed.	Supervisory reviews of general ledger journal entries should be consistently performed by function management.
6.09	Fiscal and Performance Internal Audit	Supervisory reviews are not consistently documented on internal audit work papers.	Improper conclusions regarding the results of audit testing may be made.	Function management should review and document their oversight of all audit testing.
6.10	Fiscal and Performance Internal Audit	Time budgets are not developed and used to monitor the status of individual internal audits.	Internal audits may not be efficiently performed.	Function management should monitor the status of individual internal audits and staff performance by developing time budgets and monitoring incurred audit time.
6.11	General Ledger	New general ledger accounts and account groupings are processed and approved by the same individual.	Incorrect or unauthorized general ledger accounts and account groupings could be created.	Function management should independently review the creation of new general ledger accounts and account groupings.

Section III - Observations, Exposures and Recommendations (Continued)

6. Additional Supervisory Practices Should Be Implemented - Continued

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
6.12	Financial Reporting	Source documents for the City's CAFR and the presentation of component unit financial statements in the CAFR are not consistently subjected to a supervisory review.	Errors and inconsistencies in the CAFR may not be timely detected.	Source documents for the City's CAFR and the presentation of component unit financial statements in the CAFR should be consistently reviewed by function management.
6.13	General Ledger	Independent supervisory reviews of GASB Statement No. 34 adjustments and the reconciliation between the fund and government-wide account balances are not performed.	The City's financial statements may not be properly presented.	Consideration should be given to having the Deputy Controller review any GASB Statement No. 34 adjustments and the reconciliation between the fund and government-wide account balances.

7. Integration of the Workflows of the City Controller's Office and Other Departments Could Increase Efficiencies

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
7.01	Contract Management	Contract information is maintained in PeopleSoft and Excel by the City Controller's Office and the City's Finance Department.	Inefficiencies exist as the same or similar data is entered, maintained, and stored on multiple systems.	Should the City migrate to another ERP system, the capabilities of that system should be evaluated to ensure that all data requirements of the contract management, accounts payable and purchasing functions are accommodated.
7.02	Accounts Payable and Contract Management	The processing of and data related to resolutions, vendor bids, contracts, requisitions, purchase orders, receipts, invoices, returned items, payments and credits, is not fully integrated within the PeopleSoft system.	Inefficiencies exist from the need to process the same or similar data more than once, and reconcile the data stored within the PeopleSoft system, Excel and other applications.	Should the City migrate to another ERP system, the integration of purchasing and accounts payable activities and data within that system should be evaluated.

Section III - Observations, Exposures and Recommendations (Continued)

7. Integration of the Workflows of the City Controller's Office and Other Departments Could Increase Efficiencies - Continued

No.	Function	Observation	Exposure	Recommendation
7.03	Fixed Assets	Fixed asset data is independently maintained in the PeopleSoft accounts payable, general ledger and fixed asset applications and Excel.	Inefficiencies exist as the same or similar data is entered into different PeopleSoft applications and Excel.	Should the City migrate to another ERP system, the integration of purchasing, accounts payable, general ledger and fixed asset activities and data within that system should be evaluated.
7.04	Accounts Payable	<p>Hardcopies of checks and departmental invoices are duplicated and distributed to departments.</p> <p>Electronic images of departmental invoices are also stored in Onbase.</p>	Inefficiencies exist due to the redundant retention of data.	Should the City migrate to another ERP system, the City Controller's Office should consider enabling departments to directly retrieve electronically stored images.
7.05	Contract Management	Hardcopies of contracts are routed for manual signatures.	Inefficiencies exist as contracts must be physically transported between offices, increasing the risk that such documents will be misplaced.	Consideration should be given to assessing the routing of electronic copies of contracts and utilizing electronic signatures.

Section III - Observations, Exposures and Recommendations (Continued)

8. *Certain Processes and Internal Control Activities Should Be Automated*

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
8.01	General Ledger	<p>Payroll, budget, encumbrance, wire transfer, depreciation and cost allocation journal entries are manually processed.</p> <p>Additionally, the data necessary to calculate amortization and depreciation amounts is manually accumulated in Excel.</p>	Inefficiencies may result and the risk of input error increases.	<p>Should the City migrate to another ERP system, the integration of payroll, budgeting, purchasing, fixed asset and wire transfer activities and data should be evaluated to ensure the processing of related journal entries are automated.</p> <p>Additionally, the ability of the ERP system to process reoccurring cost allocation entries and calculate depreciation and amortization expense amounts should be evaluated.</p>
8.02	General Ledger	Supporting documentation for general ledger transactions is manually retrieved.	Inefficiencies may result from having to locate hardcopy documents or accessing Onbase, which is not interfaced with PeopleSoft.	Should the City migrate to another ERP system, its ability to permit images of supporting documentation, such as vendor invoices, to be automatically viewed through the linkage of transaction data and related scanned images should be evaluated.
8.03	Financial Reporting	New general ledger accounts are manually assigned to report groupings within both the PeopleSoft general ledger and Invision reporting systems.	Inefficiencies exist as PeopleSoft general ledger and related Invision reports must be reconciled to ensure both systems were properly maintained.	Should the City migrate to another ERP system, the integration of general ledger and reporting applications should be evaluated to ensure the report groupings within those applications can be concurrently maintained.

Section III - Observations, Exposures and Recommendations (Continued)

8. *Certain Processes and Internal Control Activities Should Be Automated - Continued*

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
8.04	General Ledger	The ability of City departmental personnel to cause expenditures and other amounts to be recorded to departments not under their authority is not automatically restricted.	Improper and unauthorized journal entries may be processed.	Should the City migrate to another ERP system, the ability to automatically restrict cost center account postings to personnel that have authority over those cost centers should be evaluated.
8.05	General Ledger	The City's chart of accounts needs to be manually copied and input to be utilized in future fiscal year accounting periods.	Inefficiencies exist and the risk that the City's chart of accounts may not available increases.	Should the City migrate to another ERP system, the ability of the City's chart of accounts to be utilized in future fiscal years without manual intervention should be evaluated.
8.06	General Ledger	Automated edit checks on the appropriateness of new general ledger accounts and funds are not performed.	General ledger funds may include inappropriate accounts.	Should the City migrate to another ERP system, the ability to automatically prevent inappropriate general ledger accounts from being created within improper funds should be evaluated.
8.07	Financial Reporting	The City's CAFR is manually prepared and retyped.	Inefficiencies may exist.	Should the City migrate to another ERP system, the ability to automatically populate financial amounts within CAFR word processing files from the system's general ledger or reporting applications should be evaluated. Additionally, any typed changes to the CAFR should be processed by City Controller's Office personnel.
8.08	Fiscal and Performance Internal Audit	Laptops and work paper management, timekeeping and data analysis software is not utilized.	Inefficiencies may exist.	Consideration should be given to utilizing laptops and audit software to increase efficiencies.

Section III - Observations, Exposures and Recommendations (Continued)

8. *Certain Processes and Internal Control Activities Should Be Automated - Continued*

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
8.09	Accounts Payable	Information regarding the processing and payment status of invoices within the PeopleSoft system is not accessible by vendors.	Inefficiencies may result from an estimated 1,300 vendor inquiries needing to be responded to annually by phone or email.	Should the City migrate to another ERP system, the abilities of vendors to access a secure web portal to resolve any inquiries should be evaluated.
8.10	Accounts Payable	Invoice files from vendors are not currently being received and processed. Also, the processing of vendor payments through the City's banking applications could be increased.	Inefficiencies may result from the manual processing of hardcopies of vendor invoices and checks.	Should the City migrate to another ERP system, the abilities to receive and perform edit checks on vendor invoice files and automatically schedule and generate related electronic payments should be evaluated.

9. *Internal Audit Testing and Documentation Could Be More Comprehensive*

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
9.01	Performance Internal Audit	Comprehensive testing of the validity of data used to support selected reported performance audit findings was not consistently performed.	Invalid performance audit conclusions could be reached.	The validity of data used to support reported performance audit findings should be consistently assessed and tested.
9.02	Fiscal and Performance Internal Audit	Evidence of audit testing objectives, the procedures performed, sources of utilized information, conclusions and reportable conditions or adjustments, were not consistently documented in selected work papers.	Work paper documentation supporting internal audit findings may not be available.	Function management reviews of audit testing should ensure audit testing objectives, the procedures performed, sources of utilized information, conclusions and reportable conditions or adjustments, are properly documented in audit work papers and support reported audit findings and results.

Section III - Observations, Exposures and Recommendations (Continued)

9. Internal Audit Testing and Documentation Could Be More Comprehensive - Continued

No.	Function	Observation	Exposure	Recommendation
9.03	Fiscal Internal Audit	Audit planning is not consistently performed to ensure the procedures to be executed are effective, efficient, and address all significant risks.	Significant risks may not be addressed and audit testing may not be effective or efficient.	Auditing planning should be consistently performed to address all significant audit risks by evaluating the nature and profile of the entity to be audited, applicable laws or regulations, prior audit results, opportunities for fraud, waste and abuse, the effectiveness of internal controls and other relevant factors.
9.04	Performance Internal Audit	Audit programs were not consistently utilized to ensure that all planned audit procedures were performed, and documentation of audit staff independence was not maintained.	All identified risks may not be addressed through the performance of audit procedures.	Audit programs should be consistently utilized to ensure all planned audit procedures were performed and staff independence should be documented.
9.05	Performance Internal Audit	The implementation status of corrective actions to remediate reported audited findings are not consistently reviewed.	Corrective actions to remediate reported audit findings may not be implemented.	The implementation status of corrective actions for significant audit findings should be reviewed within one year of report issuance.
9.06	Fiscal Internal Audit	Selected fiscal audit work papers were not consistently organized and irrelevant audit evidence was maintained.	Reported audit findings and results may not be readily supported by underlying audit documentation.	Function management should develop a consistent approach to organizing audit documentation and retaining audit evidence.

Section III - Observations, Exposures and Recommendations (Continued)

9. Internal Audit Testing and Documentation Could Be More Comprehensive - Continued

No.	Function	Observation	Exposure	Recommendation
9.07	Fiscal and Performance Internal Audit	Document retention policies do not appear to have been developed.	Inefficiencies may occur and audit documentation may be inconsistently retained and destroyed.	<p>A records retention policy should be developed based on applicable laws and operational needs.</p> <p>Adherence to the policy should be monitored and all necessary documents should be destroyed at least annually.</p> <p>Additionally, consideration should be given to storing audit documentation electronically within Onbase.</p>

10. Performance Audit Reports Should Be Modified and Consideration Should Be Given to Issuing Reports for All Completed Fiscal Audits

No.	Function	Observation	Exposure	Recommendation
10.01	Performance Internal Audit	Selected performance audit reports indicated that the audits were performed in accordance with generally accepted government auditing standards (GAGAS) without any stated limitations or exceptions.	The reported manner in which the selected audits were conducted could be misinterpreted.	Statements that audits are performed in accordance with GAGAS should be removed or appropriately qualified.
10.02	Fiscal Internal Audit	Root causes of, and recommendations for, reported audit findings were not consistently disclosed in selected internal audit reports.	Effective corrective action plans may not be able to be developed and implemented.	Function management reviews of audit findings should ensure the potential causes of such findings are fully assessed and relevant recommendations are prepared.

Section III - Observations, Exposures and Recommendations (Continued)

10. Performance Audit Reports Should Be Modified and Consideration Should Be Given to Issuing Reports for All Completed Fiscal Audits - Continued

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
10.03	Fiscal and Performance Internal Audit	Written responses to reported audit findings are not consistently received timely.	Fiscal and performance audit reports may not be issued timely.	Consideration should be given to performing additional procedures within departments that do not develop timely and effective corrective actions that remediate significant audit findings.
10.04	Fiscal Internal Audit	Fiscal audit reports were not consistently issued for completed audits.	Fiscal audit results may not be communicated, and any necessary corrective action plans may not be developed.	Audit reports should be issued for all completed internal audits.

11. Consideration Should Be Given to Implementing Additional Best Practices

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
11.01	Contract Management	Most vendor invoices greater than \$2,000 appear to be processed in similar manners without regard to the significance of the invoiced cost.	Efforts expended in verifying vendor invoices may not be proportionate to the dollar values or risks associated with such invoices.	Consideration should be given to utilizing purchasing cards for high-volume and low-dollar value purchases with appropriate restrictions being placed on the use of such cards and comprehensive audit techniques being implemented.
11.02	Information Systems	There does not appear to be an awareness of the City Controller's Office role in restoring and continuing the City's financial activities in the event the PeopleSoft system is unavailable for a prolonged period.	The PeopleSoft system is not supported by a third party and certain financial activities of the City may not be timely restored or continued.	The City Controller's Office should obtain and review any disaster recovery plans developed by the City's information technology function to determine the manner by which its financial activities will be restored or continued in the event the PeopleSoft system is unavailable for a prolonged period.

Section III - Observations, Exposures and Recommendations (Continued)

11. Consideration Should Be Given to Implementing Additional Best Practices - Continued

No.	Function	Observation	Exposure	Recommendation
11.03	Contract Management	Purchases in excess of \$2,000 require a contract, authorized by City Council, to be executed with a vendor.	<p>The contracting and capitalization thresholds differ and the efforts expended to process certain contracts may greatly reduce any related benefits.</p> <p>Additionally, all contracts are required to be authorized by City Council, while other cities have established thresholds for contracts that require council approval.</p>	The costs and benefits of the existing contract threshold and City Council's authorization of all contracts should be reassessed considering possible alternative contract forms and the City's capitalization threshold.
11.04	Fiscal Internal Audit	City employees, vendors, taxpayers and others may not be readily able to anonymously report alleged instances of financial fraud, waste and abuse to the City Controller's Office.	Instances of financial fraud, waste and abuse may be occurring without detection.	<p>Consideration should be given to developing a policy detailing the manner in which instances of financial fraud, waste and abuse should be received, assessed, investigated and resolved within the City Controller's Office.</p> <p>After development of such a policy, fraud hotline voice mail and/or email accounts could be created.</p>
11.05	Financial Reporting	Popular annual financial reports (PAFRs) that briefly summarize the financial condition and results of the City are not prepared and disseminated.	City taxpayer's may not be fully aware of the City's services, the costs of such services and its financial condition and results.	Consideration should be given to annually generating PAFRs and making them available on the City's website.
11.06	Financial Reporting	The CAFR is accessible from the City Controller's Office website, and certain recommended GFOA notifications are not provided.	Users of the City Controller's Office website may misinterpret available CAFR documents.	Consideration should be given to modifying the City Controller's Office website to include notifications that the available CAFRs are dated, and have not been updated for developments occurring after the date of the independent auditor's reports.

Section III - Observations, Exposures and Recommendations (Continued)

11. Consideration Should Be Given to Implementing Additional Best Practices - Continued

<u>No.</u>	<u>Function</u>	<u>Observation</u>	<u>Exposure</u>	<u>Recommendation</u>
11.07	Financial Reporting	Written responses to management comment letters received from the City's independent auditors are not prepared.	Corrective action plans may not be developed or implemented for reported management comments.	<p>Corrective action plans should be developed and documented for each reported management comment.</p> <p>Implementation of such corrective action plans should be periodically monitored by function management.</p>
11.08	Administrative	Recommendations in this report suggest that certain roles and activities of the City Controller's Office be conformed to best practices.	The City Code may not specifically address or consider certain recommendations provided in this report.	The solicitor of the City Controller's Office should evaluate the recommendations contained herein and evaluate if amendments to the City Code should be proposed.

Section IV – Implementation Assessment

<u>No.</u>	<u>Function</u>	<u>Recommendation</u>	<u>Estimated Priority</u>	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
1.	Accounts Payable	Function management should consistently confirm that processed invoices are properly verified prior to payment.	High	
2.	Accounts Payable	Unused check stock should be locked in a secure location which is restricted to only authorized personnel.	High	
3.	Accounts Payable	Online banking application code keys should be locked in a secure location that is accessible to only authorized users.	High	
4.	Accounts Payable	The ability to create vendors and process and approve vouchers should be properly segregated.	High	
5.	Accounts Payable	<p>The functionality of the ERP system that the City may migrate to should be evaluated to ensure it includes automated verifications of invoiced quantities and items with related purchase order and receiving transactions.</p> <p>The adequacy of the tracking of returned items and vendor credits by City departments should be assessed by City Controller's Office inspectors or the fiscal internal audit function.</p>	High	Yes
6.	Accounts Payable	For expenditures made in excess of established thresholds, City Controller's Office inspectors should confirm that engaged professional service firms fully performed their contracted responsibilities.	High	
7.	Accounts Payable	Function management should maintain a log of returned vendor checks and monitor the disposition of such checks.	High	

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
8.	Accounts Payable	<p>A list of personnel authorized to approve vouchers, purchase orders and department initiated interfund wires, should be developed with the City's Finance Department and utilized to verify that cash disbursements and wire transfers are authorized by appropriate personnel.</p> <p>This listing should be reviewed and updated at least annually and upon the turnover of designated personnel.</p>	High	
9.	Accounts Payable	Checks should be disbursed after the sufficiency of available cash balances has been confirmed.	High	
10.	Accounts Payable	Submitted explanatory invoices should be aggregated by vendor and reviewed by function management to ensure required purchasing processes have not been circumvented.	High	
11.	Accounts Payable	The internal control activities performed by invoice processors should include procedures to ensure that invoice amounts are coded to correct general ledger accounts.	High	

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
12.	Accounts Payable	<p>Checklists should be developed which define the verification, inspection and compliance review procedures that should be performed on vendor invoices and employee expense reports. The checklist procedures should include reviews of the appropriateness of general ledger account codes assigned to invoice costs, verifications that authorized personnel have approved the invoice, charged mileage rates and distances are appropriate, unexpended contract funds are available for the invoice to be paid and other verification procedures.</p> <p>Performance of these procedures should be confirmed through supervisory reviews of processed invoices.</p>	Moderate	
13.	Accounts Payable	For expenditures made in excess of established thresholds, City Controller's Office inspectors or the fiscal internal audit function should consider conducting periodic counts of non-capitalized assets and supply inventories and comparing those counts with the recorded quantities maintained by the departments.	Moderate	
14.	Accounts Payable	Checks should not be generated until the warrant report is approved.	Moderate	
15.	Accounts Payable	The sufficiency of available budgeted funds should be confirmed prior to the payment of employee benefit expenditures.	Moderate	

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System
16.	Accounts Payable and Contract Management	Should the City migrate to another ERP system, the integration of purchasing and accounts payable activities and data within that system should be evaluated.	Moderate	Yes
17.	Accounts Payable	Should the City migrate to another ERP system, the abilities to receive and perform edit checks on vendor invoice files and automatically schedule and generate related electronic payments should be evaluated.	Moderate	Yes
18.	Accounts Payable	Should the City migrate to another ERP system, the abilities of vendors to access a secure web portal to resolve any inquiries should be evaluated.	Moderate	Yes
19.	Accounts Payable	Should the City migrate to another ERP system, the City Controller's Office should consider enabling departments to directly retrieve electronically stored images.	Moderate	Yes
20.	Accounts Payable	A list of recurring wire transfers should be prepared with the City's Finance Department to enable the timely processing of such payments to be monitored.	Low	Yes
21.	Accounts Payable and Contract Management	Consideration should be given to tracking the current custodian and status of contracts, requests to unencumber funds, explanatory invoices and invoices returned to City departments and the dates such documents were received, returned and processed.	Low	Yes
22.	Contract Management	Supervisory reviews of entered or deleted contracts should be performed by function management to ensure incorrect, incomplete or unauthorized contract information is not processed and entered into the PeopleSoft system.	High	

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System
23.	Contract Management	Should the City migrate to another ERP system, the capabilities of that system should be evaluated to ensure that all data requirements of the contract management, accounts payable and purchasing functions are accommodated.	High	Yes
24.	Contract Management	The functionality of the ERP system that the City may migrate to should be evaluated to ensure it readily permits the tracking and monitoring of expiration dates of vendor insurance policies, past prevailing wage violations and other contractual requirements.	High	Yes
25.	Contract Management	The costs and benefits of the existing contract threshold and City Council's authorization of all contracts should be reassessed considering possible alternative contract forms and the City's capitalization threshold.	High	
26.	Contract Management	Consideration should be given to utilizing purchasing cards for high-volume and low-dollar value purchases with appropriate restrictions being placed on the use of such cards and comprehensive audit techniques being implemented.	Moderate	Yes
27.	Contract Management	For contracted amounts in excess of established thresholds, the City Controller's Office should consider reconciling received bid information to the terms of submitted contracts.	Moderate	

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
28.	Contract Management	Engaged contractors that may be required to submit Form WH-347, weekly and final wage reports, and City departments that may be required to submit living wage assistance reports should be identified from executed contracts and contacted to determine the status of the submission of the applicable reports.	Moderate	
29.	Contract Management	The ability to manipulate the time stamp machine should be properly segregated from the responsibilities of receiving, time stamping and witnessing the opening of vendor bids.	Moderate	
30.	Contract Management	Consideration should be given to assessing the routing of electronic copies of contracts and utilizing electronic signatures.	Moderate	
31.	Contract Management	Consideration should be given to monitoring passed resolutions to timely identify modifications to authorized expenditure amounts.	Low	
32.	Financial Reporting	<p>Consideration should be given to tracking and making inquiries of City departments regarding the status of encumbered purchase orders that have been open for more than six months.</p> <p>Additionally, open encumbrances should be closed at least annually and upon the processing of the last invoice associated with an encumbered purchase order.</p>	High	
33.	Financial Reporting	The reporting capabilities of the ERP system that the City may install in the future and the ease of the use of such capabilities should be evaluated.	Moderate	Yes

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
34.	Financial Reporting	Source documents for the City's CAFR and the presentation of component unit financial statements in the CAFR should be consistently reviewed by function management.	Moderate	
35.	Financial Reporting	Should the City migrate to another ERP system, the ability to automatically populate financial amounts within CAFR word processing files from the system's general ledger or reporting applications should be evaluated. Additionally, any typed changes to the CAFR should be processed by City Controller's Office personnel.	Moderate	Yes
36.	Financial Reporting	Consideration should be given to annually generating PAFRs and making them available on the City's website.	Moderate	
37.	Financial Reporting	Should the City migrate to another ERP system, the integration of general ledger and reporting applications should be evaluated to ensure the reporting groupings within those applications can be concurrently maintained.	Low	
38.	Financial Reporting	Consideration should be given to developing plans to complete accounting period closing processes within ten days and accelerating the performance of certain processes prior to year end.	Low	

Section IV – Implementation Assessment (Continued)

<u>No.</u>	<u>Function</u>	<u>Recommendation</u>	<u>Estimated Priority</u>	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
39.	Financial Reporting	<p>Corrective action plans should be developed and documented for each reported management comment.</p> <p>Implementation of such corrective action plans should be periodically monitored by function management.</p>	Low	
40.	Financial Reporting	Consideration should be given to modifying the City Controller's Office website to include notifications that the available CAFRs are dated, and have not been updated for developments occurring after the date of the independent auditor's reports.	Low	
41.	Fixed Assets	Annually, lease expenses should be analyzed and departments should be requested to review the condition of fixed assets and report any impairments or damages.	Moderate	
42.	Fixed Assets	The functionality of the ERP system that the City may install in the future should be evaluated to assess its capabilities to track and provide purchasing personnel information on idle assets.	Moderate	
43.	Fixed Assets	Should the City migrate to another ERP system, the integration of purchasing, accounts payable, general ledger and fixed asset activities and data within that system should be evaluated.	Moderate	Yes

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
44.	Fixed Assets	Consideration should be given to delegating the processing of fixed asset transactions, and the maintenance of related ledgers to subordinates of function management to enhance productivity and permit effective supervisory reviews to be performed.	Low	
45.	General Ledger	Allocations of non-departmental costs and accruals of expenses should be recorded at least quarterly.	High	Yes
46.	General Ledger	<p>The manners in which employee benefits, utilities and other expenditures are allocated should be reevaluated at least annually and consideration should be given to allocating such costs based on:</p> <ol style="list-style-type: none"> 1. current claim data and premium expenses by the department, 2. the square feet currently occupied by departments, 3. and other appropriate cost drivers. 	High	
47.	General Ledger	Function management should evaluate the accounting estimates used to determine recorded balances, such as the allowance for uncollectible real estate taxes, at least annually.	High	
48.	General Ledger	Should the City migrate to another ERP system, the use of "NSF" accounts should be discontinued.	High	
49.	General Ledger	Supervisory reviews of general ledger journal entries should be consistently performed by function management.	High	

Section IV – Implementation Assessment (Continued)

<u>No.</u>	<u>Function</u>	<u>Recommendation</u>	<u>Estimated Priority</u>	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
50.	General Ledger	The responsibilities of preparing and approving bank account reconciliations should be properly segregated.	High	
51.	General Ledger	Supervisory reviews of general ledger account balance analysis should be consistently performed by function management.	High	
52.	General Ledger and Accounts Payable	To ensure department expenses are consistently reported and aggregated in the same general ledger accounts, departmental expenditures should be consistently recorded within the lowest hierarchy of the general ledger account structure.	High	
53.	General Ledger	<p>A comprehensive accounting manual should be developed that details the City's accounting policies, responsibilities and closing processes.</p> <p>This manual should also be assessed and updated annually.</p>	High	
54.	General Ledger	<p>A list of personnel authorized to approve department initiated journal entries should be developed and utilized to verify that journal entries are authorized by appropriate personnel.</p> <p>This listing should be reviewed and updated at least annually and upon the turnover of designated personnel.</p>	Moderate	
55.	General Ledger	Consideration should be given to developing, adopting and monitoring financial budgets for all special revenue funds.	Moderate	

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
56.	General Ledger	Consideration should be given to further assessing the migration of the accounting for the pension trusts to the ERP system that the City may install in the future.	Moderate	Yes
57.	General Ledger	Function management should independently review the creation of new general ledger accounts and account groupings.	Moderate	
58.	General Ledger	Consideration should be given to having the Deputy Controller review any GASB Statement No. 34 adjustments and the reconciliation between the fund and government-wide account balances.	Moderate	
59.	General Ledger	<p>Should the City migrate to another ERP system, the integration of payroll, budgeting, purchasing, fixed asset and wire transfer activities and data should be evaluated to ensure the processing of related journal entries are automated.</p> <p>Additionally, the ability of the ERP system to process reoccurring cost allocation entries and calculate depreciation and amortization expense amounts should be evaluated.</p>	Moderate	Yes
60.	General Ledger	Should the City migrate to another ERP system, its ability to permit images of supporting documentation, such as vendor invoices, to be automatically viewed through the linkage of transaction data and related scanned images should be evaluated.	Moderate	Yes

Section IV – Implementation Assessment (Continued)

<u>No.</u>	<u>Function</u>	<u>Recommendation</u>	<u>Estimated Priority</u>	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
61.	General Ledger	Should the City migrate to another ERP system, the ability of the City's chart of accounts to be utilized in future fiscal years without manual intervention should be evaluated.	Moderate	Yes
62.	General Ledger	Should the City migrate to another ERP system, the ability to automatically restrict cost center account postings to personnel that have authority over those cost centers should be evaluated.	Moderate	Yes
63.	General Ledger	Should the City migrate to another ERP system, the ability to automatically prevent inappropriate general ledger accounts from being created within improper funds should be evaluated.	Moderate	Yes
64.	General Ledger	The functionality of the ERP system that the City may migrate to should be evaluated to determine its capability to accumulate and report departmental performance metrics.	Low	
65.	Information Systems	A reporting of employees on leaves of absence should be provided to the City Controller's Office at least monthly, and PeopleSoft user access rights of employees on leaves of absence should be timely suspended.	High	
66.	Information Systems	A reporting of PeopleSoft user access rights by department should be generated, disseminated and evaluated by City department directors at least annually.	High	

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System
67.	Information Systems	<p>PeopleSoft users should be prompted to, or automatically caused to, change their passwords at least every six months and after receipt by a new user.</p> <p>User passwords should be at least six characters in length, contain at least one letter, one number and one special character, and passwords should not be permitted to be reused.</p>	High	Yes
68.	Information Systems	Processing events of "super user" ids utilized by the City Controller's Office should be logged, reported and reviewed by the Deputy Controller at least monthly.	Moderate	
69.	Information Systems	The City Controller's Office should obtain and review any disaster recovery plans developed by the City's information technology function to determine the manner by which its financial activities will be restored or continued in the event the PeopleSoft system is unavailable for a prolonged period.	Moderate	
70.	Project/Grant Accounting	Fixed assets purchased with special revenue funds and proceeds from the sales of such assets should be tracked to ensure such proceeds are credited to the appropriate special revenue fund or returned to the funding source when required.	High	Yes

Section IV – Implementation Assessment (Continued)

<u>No.</u>	<u>Function</u>	<u>Recommendation</u>	<u>Estimated Priority</u>	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
71.	Project/Grant Accounting	<p>To enable several additional accounting systems to be eliminated and the accumulation of certain project costs to be automated, consideration should be given to expanding the use of project funds on the PeopleSoft general ledger system or the ERP system that the City may install in the future.</p> <p>Additionally, should the City not implement the HRIS or payroll application of the ERP system, consideration should be given to further reviewing the manners in which salary and wage costs can be allocated to projects by the City's payroll outsourcer.</p>	Moderate	Yes
72.	Project/Grant Accounting	<p>Expected project completion dates should be tracked, and inquiries regarding the status of projects open after such dates should be made of City departments.</p> <p>Additionally, encumbered funds for completed projects should be timely closed to reduce the possibility that costs not related to the project are charged to the project and its budget.</p>	Moderate	
73.	Project/Grant Account	The PeopleSoft general ledger chart of accounts should be modified to permit local, state, and federal revenue amounts to be individually segregated.	Moderate	Yes

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
74.	Fiscal and Performance Internal Audit	Consideration should be given to developing an internal audit charter and annual audit plans that comprehensively assess the risks and exposures of the City and enables the productivity of the internal audit functions to be evaluated.	High	
75.	Fiscal and Performance Internal Audit	The City Controller's Office should develop a quality control system to ensure its internal audit functions meet the independence, ethical, training and other requirements of commonly accepted audit standards. Compliance with such quality controls systems should also be monitored annually.	High	
76.	Fiscal Internal Audit	Auditing planning should be consistently performed to address all significant audit risks by evaluating the nature and profile of the entity to be audited, applicable laws or regulations, prior audit results, opportunities for fraud, waste and abuse, the effectiveness of internal controls, and other relevant factors.	High	
77.	Performance Internal Audit	The validity of data used to support reported performance audit findings should be consistently assessed and tested.	High	
78.	Fiscal and Performance Internal Audit	Function management should review and document their oversight of all audit testing.	High	

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
79.	Fiscal and Performance Internal Audit	Function management reviews of audit testing should ensure audit testing objectives, the procedures performed, sources of utilized information, conclusions and reportable conditions or adjustments, are properly documented in audit work papers and support reported audit findings and results.	High	
80.	Performance Internal Audit	Audit programs should be consistently utilized to ensure all planned audit procedures were performed and staff independence should be documented.	High	
81.	Fiscal Internal Audit	Function management reviews of audit findings should ensure the potential causes of such findings are fully assessed and relevant recommendations are prepared.	High	
82.	Performance Internal Audit	Statements that audits are performed in accordance with GAGAS should be removed or appropriately qualified.	High	
83.	Fiscal Internal Audit	<p>Consideration should be given to developing a policy detailing the manner in which instances of financial fraud, waste and abuse should be received, assessed, investigated and resolved within the City Controller's Office.</p> <p>After development of such a policy, fraud hotline voice mail and/or email accounts could be created.</p>	Moderate	

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
84.	Fiscal Internal Audit	Consideration should be given to reassigning management responsibilities for the fiscal audit function to personnel who do not supervise general ledger or financial reporting activities.	Moderate	
85.	Fiscal Internal Audit	Audit reports should be issued for all completed internal audits.	Moderate	
86.	Performance Internal Audit	The implementation status of corrective actions for significant audit findings should be reviewed within one year of report issuance.	Moderate	
87.	Fiscal and Performance Internal Audit	Function management should monitor the status of individual internal audits and staff performance by developing time budgets and monitoring incurred audit time.	Moderate	
88.	Fiscal and Performance Internal Audit	Consideration should be given to performing additional procedures within departments that do not develop timely and effective corrective actions that remediate significant audit findings.	Moderate	
89.	Fiscal and Performance Internal Audit	Consideration should be given to utilizing laptops and audit software to increase efficiencies.	Moderate	
90.	Fiscal Internal Audit	Function management should develop a consistent approach to organizing audit documentation and retaining audit evidence.	Low	

Section IV – Implementation Assessment (Continued)

<u>No.</u>	<u>Function</u>	<u>Recommendation</u>	<u>Estimated Priority</u>	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
91.	Fiscal and Performance Internal Audit	<p>A records retention policy should be developed based on applicable laws and operational needs.</p> <p>Adherence to the policy should be monitored and all necessary documents should be destroyed at least annually.</p> <p>Additionally, consideration should be given to storing audit documentation electronically within Onbase.</p>	Low	
92.	Administrative	<p>Consideration should be given to reevaluating the appropriateness of each positions' duties, approval authorities, expected deliverables and education, training and professional licensure requirements and updating or developing related job descriptions.</p>	High	
93.	Administrative	<p>Performance evaluations should be performed by function management against criteria stipulated in applicable job descriptions at least annually and such evaluations should be documented.</p> <p>Additionally, consideration should be given to evaluating the performance of internal audit staff after the completion of each audit.</p>	High	
94.	Administrative	<p>The City's ethics policy and the expectations of City Controller's Office staff to prevent and report instances of fraud, waste, and abuse should be disseminated and staff compliance with such policies should be confirmed annually.</p>	High	

Section IV – Implementation Assessment (Continued)

No.	Function	Recommendation	Estimated Priority	<u>Recommendation May Be Completely or Partially Addressed By the Functionalities of Allegheny County's ERP System</u>
95.	Administrative	The solicitor of the City Controller's Office should evaluate the recommendations contained herein and evaluate if amendments to the City Code should be proposed.	Low	