



Finance Department Internal Control Enhancement Plan

Andrew Green, Director of Finance

January 5, 2015
Special Meeting of the City Council



Actions Already Taken

- Directed external auditors to increase focus, verification and review of internal controls for the current audit (June 2014)
- Re-emphasis in writing to Finance department staff that violation of policies subjects them to disciplinary action (December 2014)
- Direction to A/P staff specifically that they are not to process items where payment authorization can't be validated (July 2014)
- Hired additional forensic auditor to review A/P data from 1/1/2007 – 8/11/2014 (results will be presented to Audit Committee January 2015)



Actions Already Taken

- Review and verify that applicable contracts are valid and in the current system (Began November 2014, anticipated completion February 2015)
- Revised signature authorization form to afford departments more control and accountability (December 2014)
 - > Language re-emphasizing violation of City policies will lead to disciplinary action
 - > Updated forms must be returned to Finance by December 31, 2014
 - > Payments after January 1, 2015 will not be processed using old authorizations
 - > Forms must be updated annually

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Actions Already Taken

- Hiring Fiscal Services Administrator where identification of policy and process improvements will be part of their duties (Interviews in January 2015, anticipated selection February 2015)
 - > Made offer to individual in July 2014 but individual decided to withdraw, so process had to be restarted
- Increased cash handling and petty cash surprise audits (November 2013)

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Goals

1. Change A/P and Purchasing structure
2. Expanded reporting/review
 - More formal A/P check register process
 - Expanded review of A/P check register
 - Additional A/P reports
 - Extra review of payments above \$250k
3. Process improvements
 - Revise Special Handling Request process
 - Undergrounding Program payment process review
 - Formalize and document vendor setup process

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Goals – con't

3. Process improvements – con't
 - More frequent staff evaluations
 - Consultant for update of financial policies documentation
4. Mandatory financial policies training
 - Re-emphasis on original documents requirement
 - Regular annual training for all employees involved with City financial processes
 - Emphasis on consequence of violation of City policies
5. Full operational risk assessment

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Goal #1 - Change A/P & Purchasing structure

- A/P section and purchasing section will be separated so that A/P staff report to the Controller to enhance separation of duties
 - > Target Date: December 2014

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Goal #2 - Expanded reporting/review

- A/P registers will be presented to the Finance Director or his designee (initially the Controller) for approval prior to release of A/P checks
 - > Target Date: February 2015
- Additional A/P report reflecting cumulative amount paid to all vendors to be reviewed by the A/P supervisor after every A/P register to ensure payments conform with policy and authority
 - > Target Date: February 2015

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Goal #2 - Expanded reporting/review – con't

- Include A/P register summary reports on a Finance Committee agenda on a monthly basis as information
 - > Target Date: April 2015
- Establish procedure where all payments to payees above \$250,000 in a twelve month period will have additional scrutiny to ensure validity of payments
 - > Target Date: February 2015

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Goal #3 - Process improvements

- Revision of special handling request process and form to limit special handling requests to litigation settlements and emergencies (threat to life, limb or property)
 - > Target Date: January 2015
 - Multi-part form until full implementation of ERP system
 - Original form and supporting documentation only
 - Only department head or designated deputy department head signature to begin process
 - Department to ensure that signed request is submitted to Finance by someone other than the person requesting the special handling

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Goal #3 - Process improvements – con't

- Revision of special handling requests process and form to limit special handling requests to litigation settlements and emergencies (threat to life, limb or property) - **con't**
 - If approved by Finance, Finance will deliver the documentation to A/P for processing to ensure integrity of what was approved
 - Controller will, at least quarterly, review special handling request items that have been processed to determine if they are consistent with City policy

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Goal #3 - Process improvements – con't

- Revision of undergrounding program process
 - > Target Date: January 2015
 - PW and Finance to revise procedures to ensure roles are understood and enhance checks and balances to prevent future internal control lapses

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Goal #3 - Process improvements – con't

- Document vendor setup process
 - > Target Date: January 2015
 - Completed W9 required before setup is initiated
 - Purchasing staff authorized to create vendors will be limited to the Senior Purchasing Assistant position and the Purchasing Administrator or his designee
 - At a minimum the following information must be present before a vendor is created;
 - » Vendor Name (Business name or personal name)
 - » Physical location address (PO Boxes will not be accepted)
 - » Purchase Order/Contract number as applicable
 - » Telephone number
 - » Other information as required to ensure vendor is a legitimate vendor

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Goal #3 - Process improvements – con't

- Document vendor setup process - con't
 - Determination of whether a 1099 will be required must be made at the time the vendor is created. If all required vendor set up information has been provided, but authorized purchasing staff remains uncertain as to whether a 1099 will be required, the vendor must be created assuming that a 1099 will be required

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Goal #3 - Process improvements – con't

- **More frequent evaluations**
 - > Target Date: June 2015
 - Appropriate staff will be evaluated semi-annually to ensure policies and procedures are being followed with discipline applied where appropriate
- **Update financial polices where appropriate**
 - > Target Date: September 2015
 - Hire consultant to document and update all finance policies

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Goal #4 – Mandatory Financial Polices Training

- **Mandatory training for all individuals involved with A/P process**
 - > Target Date: January 2015 (Finance staff); February 2015 (Other City staff)
- **Mandatory training for all individuals involved with Payroll process**
 - > Target Date: March 2015 (Finance staff); April 2015 (Other City staff)
- **Mandatory training for all other financial policies**
 - > Target Date: March – August 2015

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Goal #4 – Mandatory Financial Policies Training – con't

- **Mandatory Training - con't**
 - Records will be kept of those attending the training via sign-in logs
 - Consequence of policy violations will be emphasized
 - Original documentation requirement for processing will be re-emphasized
 - All employees (new and existing) that become involved with finance processes that have not attended training must attend training within 30 days
 - Mandatory annual refresher training of all applicable employees will be required
 - The training sessions will be recorded and available on the city's intranet site

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Goal #5 – Full Operational Risk Assessment

- **Hire auditing firm to conduct a full operational risk assessment**
 - > Target Date: June 2015
 - Identify risk areas where the City may be vulnerable
 - Assessment would review areas such as IT, investing, billing and receivables, etc.
 - This assessment is part of the current audit plan scheduled for a future year but expediting this item is recommended

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