Carson City
Request for Board Action

Date Submitted: 05/26/15

Agenda Date Requested: 06/04/15
Time Requested: 30 minutes

To: Mayor and Supervisors

From: Nick Providenti, Finance Director
Michael Bertrand, Audit Committee Chairman

Subject Title: For Possible Action: Presentation, discussion, acceptance and possible direction to staff regarding implementation of the Assessment of Internal Controls final report prepared by Moss Adams and direct staff to bring back an implementation plan based on Board of Supervisors discussion. (Michael Bertrand)

Staff Summary: Moss Adams has been contracted by the Carson City Audit Committee and the Board of Supervisors to provide Internal Audit Services to Carson City. A draft of the Assessment of Internal Controls final report was presented and accepted by the Carson City Audit Committee on April 21, 2015. Representatives from Moss Adams will be presenting the report.

Type of Action Requested: (check one)
(___) Resolution   (___) Ordinance
(XXX) Formal Action/Motion   (___) Other (Specify)

Does this action require a Business Impact Statement: ( ) Yes (X) No

Recommended Board Action: I move to accept the Assessment of Internal Controls final report prepared by Moss Adams and direct staff to bring back an implementation plan based on Board of Supervisors discussion.

Explanation of Recommended Board Action: See Staff Summary.

Applicable Statute, Code, Policy, Rule or Regulation: N/A

Fiscal Impact: N/A

Explanation of Impact: N/A

Funding Source: N/A

Alternatives: None

Supporting Material: Assessment of Internal Controls final report provided by Moss Adams.

Prepared By: Nick Providenti

Reviewed By: _Nancy Paulson_   Date: _5/26/15_
    (Department Head)

: _Nick Marano_   Date: _5/26/15_
    (City Manager)

: _____   Date: _5/26/2015_
    (District Attorney)

: _Nancy Paulson_   Date: _5/26/15_
    (Finance Director)

Board Action Taken:

Motion: _____   1) _____   Aye/Nay

                                         2) _____   _____

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                                                                   _____

                                                                   _____

                                                                   _____

_____
   (Vote Recorded By)

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FINAL REPORT FOR

CARSON CITY

INTERNAL CONTROLS REVIEW

March 31, 2015

Prepared by:

Moss Adams LLP

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Suite 2800
Seattle, WA 98104
(206) 302-6500

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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I. EXECUTIVE SUMMARY

Carson City (the City) requested third-party assistance to review its internal controls framework. The review took place between November 2014 and January 2015 and focused on assessing select key controls in areas deemed important to protecting the City's assets and resources, and processing and reporting timely financial information.

The review of internal accounting controls was completed under the consultancy standards of the American Institute of Certified Public Accountants (AICPA). As such, this work was not an audit of internal controls that resulted in a formal opinion or other form of assurance. Moss Adams reviewed the City's internal controls for design but did not test those controls for operating effectiveness, which is assumed to be a forthcoming activity.

Specific areas where controls were reviewed included:

- Payroll
- Purchasing and accounts payable
- Monthly account reconciliation and closing
- Cash receipts and cash handling
- Revenues and billings
- Accounts receivables and write-offs
- Grant management and compliance
- IT general controls

The City has internal controls in place for many functions, but like most cities there is an opportunity to strengthen policies, procedures, systems, and training. Gaps of varying degrees were discovered in most of the functions reviewed, especially in the case of decentralized operations.

The implementation plan provided below defines an approach to addressing the internal control gaps listed in Section III. The gaps have been grouped into the following recommendation categorizes:

- Addressed through future internal audit work plans
- Discrete tasks that are more easily implemented
- Take time to develop and implement
- Require developing policies and procedures
- Require training

Some gaps are listed in more than one category.

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Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
Recommendations that will be addressed through Internal Audit work plans				
Payroll – 1	High	Moderate	Timekeeping	Periodic testing of reported hours
Payroll – 2	High	Low	Recording hours	Periodic testing of timesheets
Purchasing and Accounts Payable – 3	High	Moderate	Compliance with policies	Periodic testing of purchases for compliance with policies
Revenue/Cash Collections – 1	High	High	Revenue recognition	City-wide Cash Handling Audit and City-wide Revenue Audit
Revenue/Cash Collections - 2	High	High	Cash collections	Periodic visits to cash collection sites
Recommendations that have discrete tasks that are easily implemented				
Payroll – 4	Moderate	Moderate	FLSA	Implement review of FLSA calculation
Purchasing and Accounts Payable – 2	High	Moderate	P-cards	Establish responsibilities for review
Purchasing and Accounts Payable – 5	Moderate	Moderate	Cumulative vendor payments	Monitoring cumulative payments to vendors
Purchasing and Accounts Payable – 6	Moderate	Low	Deactivation of P-cards	Coordinate process to timely deactivate P-cards
Purchasing and Accounts Payable – 8	Low	Low	P-card user review	Implement periodic process to review P-card users
Revenue/Cash Collections – 4	High	Moderate	Cash tills	Implement separate cash tills
Revenue/Cash Collections – 5	Moderate	Moderate	Cash deposit	Implement processes to deposit cash daily
Revenue/Cash Collections – 3	High	High	Transportation of cash	Re-evaluate used of armored vehicle company
Revenue/Cash Collections – 7	Moderate	Moderate	Cash storage	Securely store cash

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Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
Revenue/Cash Collections – 8	Moderate	Moderate	~~Segregation of duties~~	~~Segregate duties related to cash handling~~
IT General Controls – 3	Moderate	Moderate	IT Governance	Continue to convene the Technology Governance Committee
IT General Controls – 5	Moderate	Moderate	Monitoring usage	Implement web filtering and review of audit logs
IT General Controls – 6	Moderate	Low	Termination of access	Implement process to ensure timely termination of access
IT General Controls – 7	Moderate	Low	Lockout settings	Implement lockout settings
Recommendations to be implemented by the City that will take time to implement				
Payroll – 7	Moderate	Low	Part-time employee	Explore options of including part-time employees schedule in the payroll system.
Purchasing and Accounts Payable – 7	Low	Moderate	New vendor set up	Segregate duties or implement monitoring controls for new vendor set-up
Grants Management – 1	High	Moderate	Community Support Services Program	Modify current processes to increase oversight
Grants Management – 2	Moderate	Moderate	Grants Coordinator	Establish Grants Coordinator position within Finance
Revenue/Cash Collections – 9	Low	Moderate	Analyze revenue	Implement processes for analyzing revenue
IT General Controls – 1	High	Moderate	IT purchases	Evaluate IT purchasing process
IT General Controls – 9	Moderate	Low	~~File security~~	~~Install encryption, wipe data, implement file sharing methods~~
IT General Controls – 10	Low	High	~~Network security~~	~~Implement intrusion detection system~~
IT General Controls – 11	Low	Moderate	~~Disaster recovery~~	~~Test disaster recovery plan~~

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Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
Recommendations that require documentation of policies and procedures				
Payroll – 1	High	Moderate	Timekeeping	Implement timekeeping policies and procedures
Payroll – 3	Moderate	Moderate	Overtime	Establish overtime policies
Payroll – 5	Moderate	Low	Timekeeping	Revise comprehensive payroll policies and procedures
Payroll – 8	Low	Moderate	Terminated employees	Implement procedures for detecting terminated employees.
Purchasing and Accounts Payable – 1	High	Moderate	Purchasing violations	Develop enforcement system policy for purchasing violations
Purchasing and Accounts Payable – 3	High	Moderate	Accounts payable	Update accounts payables policies and procedures
Purchasing and Accounts Payable – 4	Moderate	Moderate	Purchasing policy	Finalize and distribute Purchasing and Contracts Policy
Grants Management – 3	Moderate	Moderate	Grants management	Update Grants administration policy
Revenue/Cash Collections – 10	Low	Moderate	Cash handling policy	Update Cash Handling Policy
Other – 2	Low	Low	Key processes	Document and update key processes and procedures
IT General Controls – 3	Moderate	Moderate	IT policies	Adopt city-wide IT policies
IT General Controls – 4	Moderate	Moderate	Usage agreement	Expand computer use policy
Recommendations that require training				
Payroll – 1	High	Moderate	Timekeeping	Train supervisors on timekeeping
Payroll – 6	Moderate	Low	Overtime	Train supervisors and managers on overtime review
Purchasing and Accounts Payable – 1	High	Moderate	Purchasing violations	Train employees on purchasing policies

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Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
Grants Management – 4	Moderate	Moderate	Grants training	Train departments on grants management
Revenue/Cash Collections – 6	Moderate	Moderate	~~Cash handling training~~	~~Implement city-wide cash handling training~~
Other – 1	Moderate	Moderate	Fraud training	Provide annual fraud and internal controls training
IT General Controls – 2	High	Low	IT training	Implement IT training and communication process for IT issues

II. SCOPE AND METHODOLOGY

The scope of our review included a high-level evaluation of key internal controls throughout Carson City to determine the general adequacy of enterprise internal controls and identify areas warranting more in-depth review in the future.

The scope of internal controls review included the following aspects:

- Identifying control objectives in specific areas and identifying controls that would satisfy each control objective
- Reviewing policies and procedures
- Examining relevant documentation in support of select key controls
- Performing control walkthroughs to observe the design of key controls and understand workflow processes
- Obtaining an understanding of the characteristics of each relevant control activity (who performs it, how often it is designed to operate, whether it is designed to mitigate fraud, whether it is a manual or programmed [automated] control, and whether it is a preventive, detective, or corrective control)
- Assessing whether the controls in place would prevent or detect errors
- Providing recommendations on key controls that need to be implemented or changed

The work performed included interviews with personnel involved in managing functions, processing key accounting transactions, and handling physical assets. Such positions included:

Finance/Accounting Department
- Deputy Finance Director
- Accounting Manager
- Accounting Manager
- Payroll Administrator
- Purchasing and Contracts Manager
- Accounts Payable Clerk

Treasurer
- Chief Deputy Treasurer

Human Resources Department
- Human Resources Analyst

Information Technology Department
- IT Manager

Community Development
- Grants Program Coordinator
- Senior Permit Technician

Courts
- Court Fiscal Manager
- Court Administrator

Juvenile Services
- Chief
- Deputy Chief – Probation
- Court Fiscal Manager
- Office Manager

Fire Department
- Business Manager
- Management Assistant 3

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Public Works

○ Utility Manager

○ Management Assistant 3 – Landfill

○ Fiscal Analyst

○ Senior Transportation Planner

○ Transit Coordinator

Library

○ Library Director

Health and Human Services

○ Business Manager

Parks and Recreation

○ Business Manager

Sheriff's Office

○ Chief of Financial Services

In support of the internal controls review, the matrix provided in Section III provides a summary documentation of:

- Control objectives
- Control issues
- Corresponding recommendations
- Likelihood of occurrence
- Impact of occurrence

Likelihood of occurrence is defined as the probability of a negative event occurring. Impact of occurrence is defined as the level of significance if a negative event occurs. Risk levels of low, moderate, or high were used to rate the likelihood of occurrence and impact of occurrence for each finding.

Beyond those controls that have been reported within this report as a control issue, additional controls were reviewed without exception. The total population of controls reviewed was over 100 controls. It should be noted that many controls were reviewed multiple times in relevant, separate department reviews. Only those key controls with exception conditions are reported in this document.

The primary conclusion from this review is that the City has an opportunity to improve internal controls and strengthen processes and procedures. Suggested priorities to address over the next 6 to 12 months include, but are not limited to:

- Purchasing
- P-cards
- Grants management
- Cash handling and revenue
- Information technology
- Timekeeping

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III. INTERNAL CONTROLS REVIEW

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
A. Payroll and Timekeeping				
1. Hours are accumulated and reported accurately.	The departments' review of accumulated hours reported in HTE is not documented and thus may not be performed consistently, which results in the risk of hours not being accumulated and reported accurately. The Fire Department and Sheriff's Office use TeleStaff for electronic timekeeping, which has an electronic approval process. Designated individuals in each of these departments then upload this information into HTE, the City's payroll system. In all other departments, employees use paper timesheets for timekeeping which require manual approval and manual entry into HTE. Employees submit timesheets to a designated individual in each department. The designee enters this data into HTE. Once this information is entered, a report is created within HTE and provided to a supervisor or manager for review against the paper timesheets. Although signatures are required on the paper timesheets upon review, no approval of the HTE report by the reviewer is required. Thus, there is no documentation that a review of this report is being performed. While the Payroll Division believes that departments should perform this function, there is no City-wide policy requiring documentary evidence of this key control.	Implement City-wide policies and procedures regarding timekeeping, including review of accumulating and reporting hours accurately. Provide training to department supervisors and managers about duties related to timekeeping. Use Finance staff or internal audit resources to perform periodic monitoring of departmental processes and controls related to review of accumulating and reporting hours accurately.	High	Moderate

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	Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
2.	Hours recorded are adequately monitored and reviewed.	Reviewing hours recorded in HTE is a high-level manual process and is subject to human error. Although the Payroll Division performs checks to ensure the accuracy of time reported prior to processing payroll, these checks are performed almost entirely manually. A Payroll staff member reviews the hours proof report each pay period, which shows the number of hours worked per day, the type of hours, and the wage rate applied. Payroll manually reviews this report, employee by employee, to verify that enough base hours were reported and holidays were reported appropriately. Also, the Payroll Division checks to verify that the appropriate overtime codes were used according to the relevant bargaining unit.	Implement random audits of paper timesheets for completeness and accuracy assurance. Use finance staff or internal audit resources to perform the random audits. Explore options for programming additional reports or queries to assist in assuring accuracy and quality of timekeeping and payroll information.	High	Low

	Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
3.	There are policies governing the use of overtime and its authorization.	Other than the agreements with each bargaining unit, the City does not have City-wide policies regarding overtime usage. As a result, the use of overtime varies by department and position. For example, employees in Fire and Public Works may have significant overtime, while IT has none. In addition, the process for documenting and approving overtime varies by departments. Some departments, by nature, allow overtime that has not been pre-approved, while others do not. Additionally, the overtime forms that each department submits are slightly different. Departmental designees enter overtime hours into HTE and submit the forms to Payroll. Payroll does not routinely review these forms. Once all overtime hours are entered, Payroll reviews the hours proof to assess the reasonableness of the hours. Because there is no City-wide policy regarding overtime or a policy guiding the Payroll staff in their review, the review is subjective and its value is limited. The staff will follow up with departments if the number of overtime hours seems unusual or high. Similarly, without more definitive guidance, Payroll staff does not address whether all of the appropriate authorizations were made. Without tighter controls over overtime, the City risks overpaying for overtime.	Establish a City-wide policy on overtime, including the general authorization process. Specify exceptions by department or situation, as necessary. Create procedures and guidelines for Payroll to follow in assessing the reasonableness of overtime.	Moderate	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
4. Gross and net pay is calculated accurately.	The Fair Labor Standards Act (FLSA) calculations are minimally reviewed, and the Payroll Division relies on an Excel spreadsheet to calculate and track complex FLSA compliance requirements. Manual processes, including calculations, are subject to error.	Implement processes to reduce risk of errors, including performing additional periodic reviews of the FLSA spreadsheet, incorporate formulas into the spreadsheet, and restrict editing. Explore opportunities to automate FLSA calculations to eliminate the manual process. Alternately, incorporate a review step by an accounting manager or the Deputy Finance Manager into the existing process.	Moderate	Moderate
5. There are well-documented policies and procedures relating to timekeeping.	The documentation of payroll processes and procedures is insufficient and not current. For example, staff are instructed to audit the hours proof report for the reasonableness of regular rates and for hard coded rates, but no further explanation is provided. Similarly, other information that should be reviewed, such as holidays during the pay period, is not mentioned in the procedures. In addition, the City's procedures for departments to follow regarding timekeeping and payroll are not up-to-date or comprehensive. For example, the process that managers should follow when reviewing the accuracy of the hours proof is not documented. Similarly, the City does not provide guidance to departments about how to track and verify employee leave time. Without comprehensive policies and procedures for payroll, the City is at risk of departments adopting their own methods related to payroll and timekeeping. These methods may not have adequate internal controls.	Continue efforts to revise existing policies and procedures to more comprehensively document the accuracy assurance functions of Payroll. Update City-wide policies regarding timekeeping to remove sections that are not relevant and add instructions for departments about how to effectively review timesheets and hours proofs, as well as document their review.	Moderate	Low

	Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
6.	Overtime is overseen to ensure compliance with laws and regulations, and to ensure cost controls for efficient operations.	Department supervisor training and experience with overtime rules and regulations is insufficient, which could result in instances of non-compliance with payroll laws. For example, in Parks and Recreation, a part-time employee reported 12 hours in one day. Payroll noticed this during its manual review of the hours proof report. When asked about this, the Recreation supervisor did not realize that overtime rules applied to employees who worked less than 40 hours in one week. While the Payroll Division may detect some errors through its manual review, without reports to help support this analysis, this review may not be sufficient to provide reliable assurance. Moreover, errors may be more effectively addressed by developing a policy and increasing training to help departments prevent errors at the outset.	Create written guidance, applicable citywide, for supervisors and managers regarding overtime rules and regulations. Incorporate the topic of overtime into training for new supervisors and managers. Provide training to existing supervisors and managers in departments with higher numbers of part-time employees, such as Parks and Recreation.	Moderate	Low
7.	Hours worked, including overtime, are accumulated and reported accurately. (Part-time employees)	Part-time employees do not have schedules established within the Payroll system resulting in ineffective tracking of potential overpayments and potential incurrence of unauthorized overtime. This poses a challenge for the designated timekeepers in the departments, as well as the Payroll Division. Without schedules for comparison, Payroll is limited in how much accuracy assurance it can perform of hours reported by part-time employees. For example, Payroll can only ensure that overtime rules are observed and verify that hours do not exceed a full-time schedule. Due to these limitations, overpayments to part-time employees can and have occurred. The risk of overpayment is highest in departments with a high number of part-time employees (e.g., Parks & Recreation).	Explore options to provide Payroll staff with additional information about part-time employees such as incorporating additional information into the Payroll profile or developing and maintaining another centralized file for part-time employees, including average hours per week and maximum authorized hours per week.	Moderate	Low

	Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
8.	Employee terminations are updated in the payroll system accurately and in a timely manner.	There are not adequate centralized controls in place to prevent terminated employees from continued payroll payments subsequent to termination. The schedules of full-time and salaried employees are loaded into HTE, the Payroll system. The City relies on exception-based reporting for payroll. If an employee terminates his or her employment, the City relies on the departments to communicate this termination to the Human Resources Department and Payroll Division to discontinue employee pay. The use of exception-based reporting makes the paper timesheets a key control to prevent continued payment to a terminated employee. Although all employees are supposed to complete and submit paper timesheets, Payroll does not check to ensure that timesheets have been received for all employees. Instead, the City relies on the departments to detect that timesheets were not completed for all individuals included on the hours proof report.	Implement random audits of paper timesheets for completeness. Policies and procedures should include guidance to departments about how to adequately review the hours proof report, including the detection of payment for terminated employees.	Low	Moderate

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Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
B. Purchasing and Accounts Payable				
1. All purchases follow the established purchasing process.	Some departments circumvent the existing purchasing processes and avoid centralized review prior to purchase, which could result in the City not receiving competitive prices for goods and services. According to the City's draft Purchasing and Contracts Policy, requests for purchases over $5,000 should be routed, with supporting documentation, to the Purchasing and Contracts Manager for review prior to purchase. Regardless of payment method, Departments are supposed to request a purchase order through Purchasing prior to making a purchase. However, aside from the existing policy, there are not strong controls in place to ensure that departments follow this process. As a result, some departments bypass this process. In particular, some departments are making purchases on purchasing cards (p-cards) and then requesting the purchase order after the fact. These instances have been detected by the Purchasing and Contracts Manager in review of p-card transactions. Additionally, the Accounts Payable Clerk and Accounting Manager have found and rejected field purchase orders in excess of $5,000 submitted to Finance. The lack of consequences following these violations offers little deterrent and further weakens this control over purchases. In addition, training to the departmental staff involved in purchasing was last provided in 2013. Thus, the purchasing staff throughout the City may not have a clear understanding of purchasing policies and procedures.	Develop and implement an enforcement system, for individuals who violate the City-wide purchasing policies. Include information about this enforcement system in the Purchasing and Contracts Policy under development as well as update the Purchasing Card Policy. Conduct a training course to refresh employees' understanding of purchasing policies and include changes within the new Purchasing and Contracts Policy. Given the limited resources within the Purchasing Division, training could be provided one-time to review the new policy with departmental staff. In the future, the Purchasing Division should meet with any new staff with purchasing responsibilities to review the Policy. Alternatively, the City could record the training and provide it digitally on demand. Consider establishing a Purchasing Committee comprised of staff across the City with purchasing responsibilities to provide a forum for sharing best practices, communicating policy changes, and addressing issues.	High	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence

2. Purchasing card transactions are reviewed for accuracy and appropriateness.	There are inadequate controls in place to ensure compliance with purchasing policies, verify reasonable pricing, or ultimately prevent fraudulent usage related to p-cards. During fiscal year 2013, the City's 238 cardholders made 17,490 transactions for a total of $6.5 million spent on p-cards. Given the extent of p-card usage, it is critical that the City has adequate preventative and detective controls in place over this usage.
	
	The City recently disseminated a p-card Program Manual that outlines the responsibilities of the cardholders, department personnel, and the p-card administrator. While the manual provides valuable written guidance and serves as a good preventative control, certain activities related to monitoring transactions are not covered. For example, no one is identified as responsible for reviewing transactions to determine if pricing is reasonable for the goods purchased or if vendors are already under contract or purchase order with the City. Further, no one is identified as responsible for prohibiting technology purchases without prior IT approval.
	
	Additionally, while some roles are specified, centralized monitoring by Finance staff is not documented in the manual or departmental policies and procedures. Currently the Accounts Payable Clerk and Accounting Manager review p-card transactions and supporting documentation each month. However, without the scope of this review documented, it is unclear what detective controls Finance staff have in place.
		Establish roles and responsibilities for p-card transactions, review within the Finance Department, and document them in the P-card Program Manual or Finance Department policies and procedures.
		
		Best practice is for:
		
		• Accounts Payable to review all transactions for accuracy of transaction and tax amounts, existence of support, and completeness.
		
		• Finance Department to periodically audit (at least once every quarter) transactions for:
		
		   o Purchases with vendors with whom the City has existing POs/contracts
		
		   o Purchases for goods/services that the City is able to provide internally or through existing POs/contracts
		
		   o Reasonableness of pricing
		
		   o Sum of amounts spent with each vendor approaching limits requiring POs/contract
			High	Moderate

	Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
3.	All purchases are reviewed for appropriateness, reasonableness, and compliance with purchasing policies.	There are not strong controls in place to ensure that all purchases made with City funds are reasonable, appropriate, and in compliance with the City's purchasing policies. The City's purchasing policy is still in draft form. Therefore, there are not clear, written requirements to which departments must adhere. In addition, the review for appropriateness and reasonableness of purchases under $5,000 is left entirely up to departments. Although this is common in a decentralized system, without a program within Finance to perform spot checks or random audits, the City is dependent on departments to detect all fraud, waste, or abuse for transactions under $5,000. The Accounts Payable Clerk position has had relatively high turnover—the third person in three years is now in the position. This position serves a key role in monitoring all purchases made throughout the City. While some accounts payable policies and procedures are documented, they are not comprehensive or up-to-date.	As part of the internal audit work plan, design and implement a program to perform I random reviews or spot checks of purchases to determine if goods and services are properly procured. Transition program to Purchasing to perform future reviews or spot checks. Review and update Accounts Payable policies and procedures.	High	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
4. Purchasing policies and procedures are well-documented.	The Purchasing and Contracts Policy, created by the Finance Department, was still in draft form at the time of this review. A City-wide purchasing policy ensures that departmental staff are aware of the parameters with which they must comply in completing purchases, including Nevada State Law and City Code. Without an adopted policy in place, non-compliant purchases are more likely to occur. Additionally, while the draft policy is applicable City-wide and is highly detailed, it does not outline all City purchasing rules, such as the restriction of IT purchases without prior approval. As discussed in the *IT General Controls – 1* control objective, involvement of the IT Department is crucial to not only verify the appropriateness of technical specifications, but also to obtain preferred pricing.	See recommendation for *Purchasing and Accounts Payable – 1*. Update the draft Purchasing and Contracts Policy to include a clause that restricts IT purchases within departments without first consulting the IT Department or gaining approval from the IT Department. Finalize and distribute the Purchasing and Contracts Policy to all City departments.	Moderate	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
5. Vendor payments are monitored consistently.	Aggregated vendor payments across all purchasing vehicles are not monitored to ensure compliance with purchasing policies. Without aggregating vendor payments across all purchasing vehicles, this control is not as strong as it could be. In addition, the existing processes are not documented. Without documentation, there is less assurance that this practice will be consistently and appropriately performed in the future. However, Purchasing monitors cumulative vendor payments made with p-cards on a monthly basis. The Purchasing Coordinator also maintains a spreadsheet of all contracts active within the City, which is frequently monitored and visible by all City departments/offices. Purchase order records are maintained within HTE and are reviewed by vendor as well, although the consistency and frequency of these reviews is unclear. These are good approaches as both preventative and detective controls, because these controls alert staff when payments are approaching limits, as well as clearly show when those limits have been surpassed.	Review and document the current process for monitoring cumulative vendor payments. Continue to explore opportunities, such as implementation of a new p-card module, to strengthen this control by developing a process to periodically monitor cumulative payments made to vendors regardless of the purchasing vehicle used (e.g., purchase order, contract, or p-card).	Moderate	Moderate

	Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
6.	Purchasing cards are promptly deactivated upon termination of employment.	P-cards are not consistently and immediately deactivated upon employee termination of employment with the City, which could result in employees making unauthorized purchases after they are terminated.	Coordinate communications on voluntary terminations between the Human Resources Department and Purchasing, so that terminations are communicated in a timely manner.	Moderate	Low
		Whether a p-card is quickly deactivated or not is dependent on how an employee leaves the City. If employees are terminated, the Human Resources Department collects and returns their p-card to the Purchasing Division. However, if employees terminate employment of their own accord, such as when resigning or retiring, p-cards may not be collected.	Discontinue practice of postponing card deactivation. Incorporate this change in written policies and procedures.		
		Purchasing waits to deactivate P-cards until after the final purchase on the account is processed. For this reason, there have been recurring automatic charges incurred after employees no longer work for the City. Additionally, delays in departmental notifications of terminations would allow terminated employees to continue using a p-card.			
7.	Controls over the entry of new vendors are adequate.	The segregation of duties between accounts payable and vendor establishment functions is insufficient. The Accounts Payable Clerk and Finance Department's Management Assistant are responsible for entering new vendors into HTE. The Accounting Manager, who reviews these entries before they are finalized, also has the ability to enter new vendors and update vendor information. Because the Accounts Payable Clerk and Accounting Assistant also review payables, there are insufficient controls in place to detect fictitious or fraudulent vendors being established and paid by the City.	Segregate all duties involving the establishment of new vendors to distinct positions not otherwise involved in Accounts Payable or Accounting. If segregating these duties is not feasible, implement a monitoring control over the establishment of new vendors and change of vendor information. For example, provide a monthly report with supporting documentation to the Deputy Finance Director for review and verification of vendor changes.	Low	Moderate

	Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
8.	The list of purchasing card holders is reviewed regularly.	The process for updating the list of p-card holders has not been documented, and no comprehensive review of this list is regularly performed. When the Purchasing and Contracts Manager became the p-card administrator in 2013, a list was sent to all departments to confirm all p-card holders. After that time, departments notify Purchasing when p-card holders terminate employment with the City, and the Purchasing Manager updates the list. The process for these updates has not been documented. Moreover, as discussed in the *Purchasing and Accounts Payable – 6* control objective, employment terminations may not be communicated promptly to Purchasing. In this decentralized environment, periodic reviews of cardholders are essential to prevent purchases by unauthorized cardholders.	Document the process for verifying cardholders, including the schedule for performance and mechanism for ensuring performance. Implement and document process for regular comprehensive reviews of cardholders.	Low	Low
C.	**Grants Management**				
1.	Adequate controls exist to ensure the integrity of grant-funded projects by the City.	The City lacks internal controls related to their grant program to ensure integrity and effectiveness in meeting program objectives. The City distributes approximately $375,000 to roughly 15 non-profit organizations per year. The majority of this money is awarded through the City's Community Support Services Grant (CSSG) program, which is funded by the General Fund. Some changes have been made in recent years to formalize the program, such as the development of a comprehensive application, including proof of non-profit status, and a system to review and score applications. However, the grant program still lacks controls to help ensure the integrity of the award process, as well as proper use of funds to meet	Modify the manner that grant recipients are paid. Consider shifting to quarterly payments, with accompanying performance reports, or to a reimbursement basis. Increase the reporting of activities to a quarterly basis, and implement a monitoring process to ensure the accuracy of these reports. Develop a formal grant agreement, including performance expectations and consequences for failure to perform. Establish a formal process to report and review possible conflicts of interest for all parties involved in the review and award process for the CSSG program.	High	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
	the grant objectives. For example, awards are granted in a one-time lump sum, rather than on a reimbursement basis, which increases the risk that organizations will not use the funds as described in their application. Additionally, activities are not tracked throughout the year. Instead they are simply reported through an annual report at the end of the year. Thus, the City has no mechanism to monitor the progress of grant recipients throughout the year. Also, no formal grant agreements are in place showing commitments to perform certain activities described. Applications simply require alignment with at least one of the City's ten goals. In addition, a process to resolve any possible conflicts of interest by applicant reviewers or Board of Supervisors members has not been developed.			
2. Adequate oversight and management of grants is established and provided on an ongoing basis.	The City lacks a dedicated Grants Coordinator position that is responsible for the oversight of all grants City-wide, and Finance's overall role in grants management is limited. The responsibilities of a Grants Coordinator position are performed by the Purchasing and Contracts Manager. Without sufficient staffing resources for this function, improvements within grants management, such as training, policy development, and compliance compete with other priorities and are not accomplished due to workload. Moreover, the Purchasing and Contracts Manager position may not have the necessary subject matter expertise in grants management. The role of Finance related to grants management has been defined fairly narrowly. It includes the assignment of general ledger numbers for accounts, reconciling the	Consider establishing a dedicated Grants Coordinator position within the Finance Department that is charged with overall grant oversight. Responsibilities include monitoring grants that are managed by various departments throughout the City, as well as performing training and monitoring compliance. If establishing a dedicated position is not feasible, consider assembling a committee of designated personnel from each department who are involved in the administration of grants. Convene meetings regularly, monthly or quarterly, to discuss new or ongoing issues within the grants environment.	Moderate	Moderate

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Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
	grant funds at year-end to ensure that revenues match expenses, and maintaining a City-wide inventory of grants. As a result, departments are responsible for the administration of their own grants, including compliance with the grants requirements. As departments manage grants without centralized monitoring and review procedures to ensure compliance and efficiency in managing grants, the, departments, and the City, face an increased risk of not complying with grant requirements.			

	Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
3.	Grants management policies and processes are well documented and up-to-date.	The grants administration policy is not comprehensive and has not been updated since April 2011. As a result, the policy does not reflect the changes in Uniform Grant Guidance, which became effective in December 2014. Without careful review and implementation of changes in requirements, the City could risk losing its current grant funding due to non-compliance. Additionally, important information that may need to be collected to adhere to new requirements may not be collected at the outset. Retroactively retrieving this information to comply with requirements can be costly and time-consuming. Other issues within the grants administration policy warrant revision. Specifically, while the current policy does address the application and award process, it does not outline roles and responsibilities related to grant reporting requirements. For example, the review process prior to submitting reports to granting agencies is not addressed. Moreover, the policy does not accurately reflect the key individuals within the Finance department involved in grants administration. For example, the policy outlines responsibilities for the Grants Coordinator. However, these tasks are currently performed by the Purchasing and Contracts Manager. This may confuse the personnel administering grants about the centralized roles and responsibilities of individuals within Finance. Finally, while City policy tasks departments with the responsibility for complying with all grant requirements, individual departments may not possess the expertise to review new requirements and determine which ones will affect the City.	Review and update the grants administration policy to include current Uniform Grant Guidance, clarification of the Grants Administrator role, and responsibility for reporting requirements. Consider adding some responsibilities for ongoing grant requirement knowledge to the Grants Coordinator role. Distribute the updated grants administration policy to grants personnel throughout the City and provide training on the policy.	Moderate	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
4. Training programs, both formal and informal, provide enough knowledge and skills necessary to manage and administer grants compliance.	Employees responsible for monitoring grant compliance may not receive adequate information to accurately manage and track compliance with grant requirements. Grants have complex and ongoing changes to compliance requirements that are imposed by various federal, state, and pass-through agencies. There is no City-wide training conducted regarding the administration of grants. Instead, some departments provide training resources to their grants personnel, while others do not. The City relies primarily on grant agencies to provide training to program administrators. However, granting agencies should not be relied upon as the sole source of guidance for recipients. For example, the Community Development Department had an audit finding for their Community Development Block Grant (CDBG), because it did not submit its Federal Financial Transactions Accountability (FFATA) report. However, Community Development's Housing and Urban Development (HUD) representative for CDBG was not aware that this FFATA reporting requirement existed. The overreliance on granting agency representatives as sources of information for grants administration and compliance pose risks to the City that ultimately can result in audit findings and lost revenue. Knowledgeable and well-trained grants personnel within the City are the most effective control to ensure grant requirement compliance.	Provide specific internal and/or external training to all employees in departments responsible for monitoring grants. The training should be relevant to the type of grants being managed, including documented requirements. Dedicate a training budget that is adequate to cover such costs. Continue to maintain written documentation of the advice it requests from the granting agency.	Moderate	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
D. Revenue and Cash Collections				
1. All available revenue (or cost reimbursements) are identified, placed in the information system, and processed.	The City is at risk that revenue is not completely and accurately recorded due to evidence of control weaknesses and process issues within individual departments and offices, as well as recent fraud. Some individual departments are maintaining transactions outside of the system within Excel spreadsheets or, in some instances, by hand. Such systems can be easy to circumvent.

For example, in the Sheriff's Office, some revenue records are maintained in Excel, and the receipt and storage system for bail money is antiquated. The Fire Department also uses Excel for most of its revenue records. In the Parks and Recreation Department, no receipts are provided to customers at the concession stand. Without receipts, employees can easily pocket cash and not record transactions. | Perform a risk-based City-wide Cash Handling Audit as part of the internal audit work program

Perform a risk-based City-wide Revenue Audit as part of the internal audit work program. | High | High |

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Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
10. A well-documented and current Cash Handling Policy exists.	The City's Cash Handling Policy is out of date and is not well known by employees that handle cash throughout the City. Without an updated policy that is distributed to all employees who handle cash, the City is at risk of employees adopting their own methods, which may not have adequate internal controls.	Update the City's Cash Handling Policy and train departments on the updated policy.	Low	Moderate
E. Other				
1. Employees are provided relevant training to understand and adhere to internal controls, as well as how to prevent and detect fraud, waste, and abuse.	While a training program exists to provide mandated courses, such as sexual harassment prevention, the programs do not address internal controls and how to prevent and detect fraud, waste, and abuse. According to the ACFE[3], the typical organization loses 5% of revenue each year to fraud, with asset misappropriation being the most common form of fraud.	Provide annual training to all employees on internal controls and fraud prevention. Training should be provided at all levels of the organization (i.e., Board of Supervisors, management, and staff).	Moderate	Moderate
2. Procedures and processes should be formally documented and followed.	The City lacks documented comprehensive and up-to-date processes and procedures. Processes and procedures exist for some areas. However, many processes and procedures are outdated. Some departments may have procedures documented; however, they are not centrally located and not always readily available. Formalized processes and procedures are imperative for training of employees and to ensure the duties can still be performed in the case of employee turnover.	Document key processes and procedures and make timely updates for changes. These procedures should be centrally available and consistently followed.	Low	Low

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[3] *ACFE Report to the Nations on Occupational Fraud and Abuse 2014 Global Fraud Study*

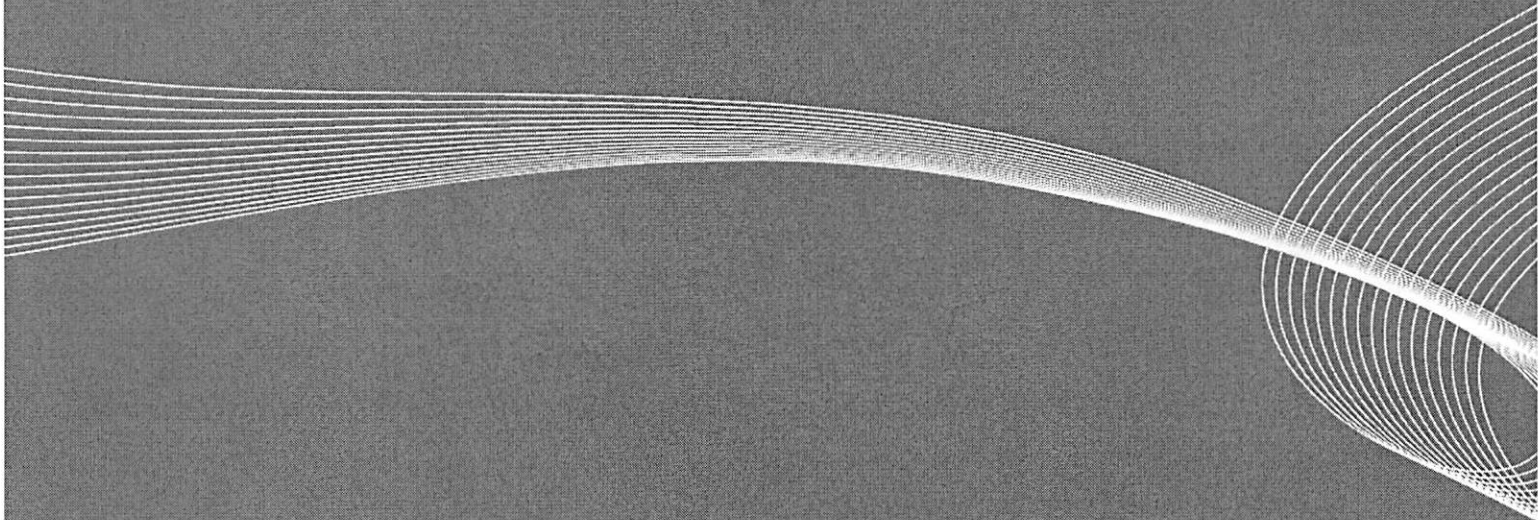| Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
F. IT General Controls				
1. Controls exist over the acquisition of all new technology purchases including hardware and software.	Departments are circumventing the standard process for making IT purchases. According to a memorandum from the City Manager in 2009, Departments are supposed send all purchase requests for technology, including all hardware and software, to IT. IT reviews these requests, ensures alignment with IT objectives, and then places the order. Upon delivery, IT adds an asset tag, inventories the item, installs any software, and then delivers the item to the requesting department. Without purchasing in alignment with management policy and objectives, the City runs the risk of purchasing items that are not compatible with existing hardware and software or at a price that does not take advantage of collective purchasing. For example, a department purchased a copier/printer without consulting IT. The department later discovered that the machine did not meet all of its needs. If coordinated through IT, then they could have used a contracted vendor, which would have resulted in the selection of an appropriate machine, cost savings, and a centrally managed contract for ongoing maintenance. Similarly, departments have independently purchased and installed their own servers. Without IT involvement over the acquisition and use of all technology, there are not adequate controls over cost, inventory, compatibility, and network security. The increased use of p-cards could result increased technology purchases by departments.	Adopt restrictive language and controls for departmental technology purchases that do not involve the IT Department. Develop template forms, with validating budgetary and departmental information, for departmental use in requesting IT products for acquisition consideration by the Technology Governance Committee. Examine opportunities to streamline the IT Department's involvement in technology purchases such as establishing standardized approved items.	High	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
2. All network users receive adequate training from IT as well as ongoing communication.	New hires do not receive training or ongoing communication regarding IT issues. New employees receive training by the Human Resources Department. As part of this new employee training, the IT Department provides a packet of information. This information is not comprehensive. For example, it does not include policies about protecting assets and access to technology. Additionally, the IT Department does not regularly communicate with all network users. For example, IT does not communicate with users about answers to frequently asked questions received by the Help Desk.	Expand written information provided to new employees and include the IT Department in the training of new employees. Implement a process to regularly communicate ongoing IT issues with users. Contact all network users periodically with reminders warranted by emergent issues.	High	Low
3. There is strong City-wide governance over IT administration.	There is weak governance over IT administration as evidenced by the lack of City-wide IT standards or robust policies and procedures to govern the acquisition and use of technology. Recent meetings to reconvene the cross-departmental Technology Governance Committee are aimed at strengthening this governance, including the creation of City-wide IT policies and standards.	Continue convening the Technology Governance Committee, and adopt City-wide IT policies and standards.	Moderate	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
4. All network users agree to the terms outlined in user agreements.	Some employees who use City technology and access the network are not full-time City employees and thus have not completed a computer user agreement. In particular, temporary staff from staffing agencies and volunteers, including those working for the Sheriff's Office, are not currently required to complete this form. This is a key control to ensure that users are informed and aware of the usage agreement to which they must adhere. Additionally, Council Members have not been required to complete the user agreement form. By exempting some users from this requirement, the City may not be adequately safeguarding its resources or preventing inappropriate usage. Moreover, by not informing all users of appropriate use standards, the City may be limited in the action in can take against violators whose agreement with this policy is not documented.	Expand the applicability of the usage agreement to require all personnel who use City technology and/or access the City's network to review and sign the computer use policy.	Moderate	Moderate
5. The activity of network users is monitored to ensure appropriate usage.	Ongoing monitoring of network activity on software applications, as well as the Internet, is not occurring. The IT Department employs a network monitoring tool to monitor network access, including internet activity, on an ongoing basis. At present, although web activity is being filtered, the IT Department cannot access the web filter logs to detect and act on inappropriate activity. In addition, due to recent retirements, the IT Department does not have any staff reviewing the audit logs of software applications for unauthorized usage.	Continue current efforts to research a product to replace the web filtering tool, and reinstitute regular reviews of web filter activity. Resume periodic reviews of software audit logs. Create policies and procedures to document the monitoring of web filters and software audit logs, and cross-train multiple staff members to ensure continuity of those functions. Develop a plan to deter and resolve inappropriate usage of technology.	Moderate	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
	Requests by departments to review user Internet activities are made directly to IT via e-mail. Requests to review e-mail or search email correspondence are made verbally to IT by departments and Human Resources staff. Without thorough documentation showing proper authorization for these types of requests, IT risks sharing user activities inappropriately.	Formalize the process to request a review of user Internet activities or e-mail correspondence, including required authorization by departments and Human Resources.		
6. Access to all network resources is promptly terminated upon termination of employment.	There is no control in place to ensure that access to decentralized technology resources is promptly deactivated. Upon terminating employment with the City, the Human Resources Department notifies the IT Department. The IT staff promptly deactivates user access to all accounts and applications. However, some departments maintain their own technology resources without the involvement of the IT Department. As such, these departments are responsible for granting and restricting access themselves, particularly for any software as a service or cloud-based services. If access in not promptly deactivated upon employee termination, the City is at risk of unauthorized access to systems.	Develop a process to maintain or monitor technologies used by departments to ensure access to technology resources is appropriately deactivated upon employment termination.	Moderate	Low
7. Assets are adequately safeguarded to prevent misappropriation and access is restricted.	The City's computers are currently not restricted by time lock settings. Without this setting, unauthorized users can access network resources and data related to City operations. The IT Department is currently awaiting approval by the newly reconvened Technology Governance Committee for this setting change. In addition, the City's computer use policy does not specify how to properly secure technology outside of City offices. The policy does not advise about preventing theft of laptops during travel or in public places. Without	Pending the Technology Governance Committee's approval, implement time lock settings to prevent unauthorized access to network resources and information. Revise the computer use policy to include the physical security of assets, and communicate changes in policy to employees.	Moderate	Low

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