

Internal Control Items with a Direct Impact on Financial Reporting - Control Environment

Exhibit G

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
1	Centralize accountability for the accuracy and credibility of the City's financial reporting under the CFO. The areas of responsibility would include, a City Comptroller, a Director of Financial Reporting, the Financial Management Director, Director of Debt Management and City Treasurer.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Completed per the 10/5/06 1st Mayor Kroll Status report. Prior to January 2006, the City's financial reporting structures were distributed throughout the organization. Some reported up to the City Manager through a Deputy and Assistant City Manager while the City Auditor & Comptroller, a separate department, reported to the Mayor and Council. This structure did not promote coordination, communications, accountability or transparency. One of the first changes I made upon taking office was to create the position of Chief Financial Officer (CFO) who is responsible for what I am calling the Department of Finance. The CFO is ultimately accountable for the accuracy and credibility of the City's financial reporting.	Oct-06	NA	Yes - Verified, per the City Organization Chart, the CFO is responsible for the new Department of Finance and is ultimately accountable for the accuracy and credibility of the City's financial reporting. The City Comptroller, Director of Financial Reporting, Director of Debt Management and the City Treasurer report directly to the CFO. This item has been accepted by Internal Audit as remediated
2	The Director of Planning, Budgeting and Financial Analysis (Financial Management Director) should report directly to the CFO and have principal responsibility for preparing an annual budget, a monthly budget with comparisons of budget to actual results year-to-date, analyses of variances and a quarterly report to the City Council and public setting forth budget versus actual results.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Completed per the 10/5/06 1st Mayor Kroll Status report. The Financial Management Director reports directly to the CFO and has primary responsibility for preparing the annual budget. Quarterly reports have been provided to the City Council and public.	Oct-06	NA	Yes - Verified, per Financial Management Mission Statement from City Intranet Site, the Financial Management Director has primary responsibility for preparing the annual budget. Additionally, verified per the City Organization Chart, the Financial Management Director reports directly to the CFO. This item has been accepted by Internal Audit as remediated

Internal Control Items with a Direct Impact on Financial Reporting - Control Environment

Exhibit G

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
3	The City Treasurer should report to the CFO and have principal responsibility for all treasury functions for the City.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Completed per the 10/5/06 1st Mayor Kroll Status report. The City Treasurer and the Budget Director report directly to the CFO. The CFO has authority over accounting and financial analysis, treasury, fiscal planning, budgeting and financial reporting and the systems that support these responsibilities.	Oct-06	NA	Yes - Verified, per Treasurer's Mission Statement from City Intranet Site, the Treasurer has principal responsibility for all treasury functions. Additionally, verified per the City Organization Chart, the City Treasurer reports directly to the CFO. This item has been accepted by Internal Audit as remediated
4	The CFO should have primary responsibility for, and have as direct reports, personnel with functional authority over, accounting and financial analysis, treasury, planning and budgeting and financial reporting. This should include authority over those responsible for all information systems required by these functions.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Completed per the 10/5/06 1st Mayor Kroll Status report. The City Treasurer and the Budget Director report directly to the CFO. The CFO has authority over accounting and financial analysis, treasury, fiscal planning, budgeting and financial reporting and the systems that support these responsibilities.	Oct-06	NA	Yes - The personnel with the functional authority over, accounting and financial analysis, treasury, planning and budgeting and financial reporting all report to the CFO. See Item number 1 above. Additionally, verified CFO responsibility per the Personnel Class Specification for the CFO position. This item has been accepted by Internal Audit as remediated
5	The Budget Director should report directly to the CFO and have principal responsibility for preparing an annual budget, a monthly budget with comparisons of budget to actual results year-to-date, analyses of variances, and a quarterly report to the City Council and public setting forth budgeted versus actual results. The Budget Director's Office should serve as a resource for financial analysis, planning assistance, and services to other City departments and agencies.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Completed per the 10/5/06 1st Mayor Kroll Status report. The City Treasurer and the Budget Director report directly to the CFO. The CFO has authority over accounting and financial analysis, treasury, fiscal planning, budgeting and financial reporting and the systems that support these responsibilities.	Oct-06	NA	Yes - See Item number 2 above. Additionally, verified per the Financial Management City Intranet Site, the Financial Management Department's description is to "provide services to the Mayor and serve as an internal fiscal consultant to other City departments." This item has been accepted by Internal Audit as remediated

Internal Control Items with a Direct Impact on Financial Reporting - Control Environment

Exhibit G

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
6	The City Treasurer should report to the CFO and have principal responsibility for all treasury functions for the City. The Office of the Treasurer and the duties assigned to that Office shall be as otherwise described in the City Charter.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Completed per the 10/5/06 1st Mayor Kroll Status report. The City Treasurer and the Budget Director report directly to the CFO. The CFO has authority over accounting and financial analysis, treasury, fiscal planning, budgeting and financial reporting and the systems that support these responsibilities.	Oct-06	NA	Yes - See Item number 3 above. Additionally, verified City Treasurer duties per City Charter Article V, Section 45. This item has been accepted by Internal Audit as remediated
7	Establish the position of City Comptroller responsible for accounting and financial reporting, including preparation of the CAFRs and reporting to the CFO	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Substantially complete per the 4/9/07 5th Mayor Kroll Status report. The City has assigned qualified personnel to serve in the capacity of Comptroller (Deputy Comptroller until the Charter is amended) and Director of Financial Reporting. City management believes the establishment of permanent position of Comptroller will require an amendment to the City Charter and perhaps the Municipal Code.	Apr-07	NA	Yes - Although the establishment of a permanent position of City Comptroller will require a Charter change, management has assigned Greg Levin these duties in the interim. Reviewed the City Comptroller Job Classification created by Personnel and verified that the Comptroller is responsible for accounting and financial reporting, including preparation of the CAFRs and reporting to the CFO. This item has been accepted by Internal Audit as remediated.

Internal Control Items with a Direct Impact on Financial Reporting - Control Environment

Exhibit G

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
8	Establish the position of Director of Financial Reporting responsible for the preparation of the City's periodic financial statements.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Substantially complete per the 4/9/07 5th Mayor Kroll Status report. The City has assigned qualified personnel to serve in the capacity of Comptroller (Deputy Comptroller until the Charter is amended) and Director of Financial Reporting. City management believes the establishment of permanent position of Comptroller will require an amendment to the City Charter and perhaps the Municipal Code.	Apr-07	NA	Yes - The City has assigned Tracy McCraner to serve in the capacity as Director of Financial Reporting. Auditor reviewed the Director of Financial Reporting Job Classification created by Personnel and verified that the Director of Financial Reporting is responsible for the preparation of the City's periodic financial statements. This item has been accepted by Internal Audit as remediated.

Internal Control Items with a Direct Impact on Financial Reporting - Control Environment

Exhibit G

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
9	<p>The Operations Division in the Auditor's office historically has been responsible for preparation of the City's CAFR. This division was responsible for a wide variety of City-wide accounting operations and contains approximately 2/3 of the Audit department's staff. All of these individuals reported to one division manager, who was responsible for overseeing a myriad of day-to-day functions. This extremely large span of control led, in our opinion, to an inevitable dilution in the quality and timeliness of management oversight of the CAFR process. Responsibilities for the CAFR preparation were not confined to a discrete group, but rather were allocated among an excessively large number of individuals within the department. This presented challenges in the coordination, communication, accountability and supervision problems throughout the CAFR preparation process. Therefore, a Financial Reporting Division should be established, various duties among the A&C operating division should be re-allocated, a Chief accountant position should be created.</p>	A&C Internal Control Report	Yes	<p>The City has assigned qualified personnel to serve in the capacity of Director of Financial Reporting. This position reports directly to the Comptroller, who in turn reports to the CFO. In addition, the Director of Financial Reporting is the manager of the Financial Reporting Division within the Comptroller's office. This Division is responsible for CAFR preparation. The day to day functions of City-wide accounting operations is now handled by the Accounting Operations and Disbursements Division within the Comptroller's office.</p>	Oct-07	NA	<p>Yes - Verified per the Comptroller (Currently Auditor and Comptroller) City Intranet Site, that a Financial Reporting Division has been established and is responsible for providing financial statements and that the Accounting Operations Division is now responsible for overseeing the day to day operations. In place of a Chief Accountant, City Management created the position of Director of Financial Reporting. See item number 8 above. This item has been accepted by Internal Audit as remediated.</p>

Internal Control Items with a Direct Impact on Financial Reporting - Control Environment

Exhibit G

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
10	Although various mechanisms are currently in place which are typically supportive of a positive control environment, a general reluctance on the part of staff at all levels to engage in discussion of controversial issues exists. While communication flows freely from management down through the organization, we noted there is no formal process for communicating information up from the line level to the most senior levels of management in a confidential manner. With the exception of policies governing the reporting of specific activities or instances, we noted that there is generally a reliance on the chain of command for communication of information to management. The conduits that do exist are often public forums and therefore may discourage some discussion of sensitive issues. Therefore, the City should implement bi-annual, mandatory value-based ethics training for all management personnel and elected officials. In addition, an employee hotline should be established.	A&C Internal Control Report	Yes	Employee Hotline established and maintained by Office of Ethics and Integrity (OEI) since December 2005. Mandatory training was subject to meet and confer which has been completed. The training is compliance based and values based. Compliance based training began in August 2007 and is ongoing. Values based training began in October 2007. Due to limited resources, the training will have a phased roll out over the next 3 years. In addition, OEI has put together a training policy that describes the who, what, when, where and why of the ethics training. Also, Organizational Effectiveness Program no longer exists, however, the establishment of OEI and required training satisfy the findings.	Oct-07	NA	Yes - Verified per the Office of Ethics and Integrity (OEI) training policy, value based ethics training will be required for all City employees, with specialized ethic based leadership training for unclassified employees. Additionally, OEI has established an employee hotline. The hotline is serviced by an independent 3rd party provider known as The Network. This item has been accepted by Internal Audit as remediated.
11	Communication between and transmission of information between the Auditor's office and the operating departments is weak. Therefore, the requirement of the internal control evaluation will need to continue to increase the quality of City-wide controls.	A&C Internal Control Report	In process	The requirement of the internal control evaluation will continue to be a priority per Municipal Code 22.0708, which requires the City Auditor to complete an annual evaluation of internal controls over financial reporting. This report is due on or before January 1 of each year.	NA	Ongoing	No

Internal Control Items with a Direct Impact on Financial Reporting - Control Environment

Exhibit G

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
12	Support the creation of standardized Citywide policies and procedures to ensure that controls for similar transactions are consistent across departments.	A&C Internal Control Report	In process	Hiring of project manager to facilitate development of policies and documentation of departmental procedures demonstrating internal control over financial assets, financial reporting, and recording of financial transactions. Actions remaining: Development of policies and documentation of departmental procedures.	NA	To be determined	No
13	It appears that errors and omissions in the CAFR were caused by a variety of issues identified in the 2006 Report on Internal Controls. While the City has made a number of personnel and process changes since June 30, 2002, it must continue to reorganize and refine its processes and train its personnel in order to improve internal controls. The City needs to reduce to a sufficiently low level the risk of errors or fraud material to the financial statements.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	In process	During remediation and reporting of the items addressed in the Kroll Report, Internal Audit is also tracking and testing the remediation efforts taken on all internal control findings/weaknesses/errors as addressed by previous Internal Control Reports and Independent Auditor Reports.	NA	Ongoing	No
14	By June 30, 2007 the CFO shall have tested and remediated the internal control weakness identified in the Auditor and Comptroller's 2006 Report and in the management letters of the City's outside auditors.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	In process	During remediation and reporting of the items addressed in the Kroll Report, Internal Audit is also tracking and testing the remediation efforts taken on all internal control findings/weaknesses/errors as addressed by previous Internal Control Reports and Independent Auditor Reports.	NA	Ongoing	No

Internal Control Items with a Direct Impact on Financial Reporting - Control Environment

Exhibit G

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
15	The CFO should submit to the Mayor and City Council, and disseminate to the public, a report that describes testing that has been completed, remediation undertaken, any internal control weaknesses not yet remediated and additional material weaknesses identified.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	In process	During remediation and reporting of the items addressed in the Kroll Report, Internal Audit is also tracking and testing the remediation efforts taken on all internal control findings/weaknesses/errors as addressed by previous Internal Control Reports and Independent Auditor Reports.	NA	Ongoing	No

Footnotes:

[1] Per information provided to Internal Audit by Management Staff and information provided via the Mayoral Kroll Status updates.

[2] "Date Reported" refers to the date the finding was reported as remediated via: 1) Memos from Management, 2) Mayoral Kroll Status Reports, 3) Status Reports to Internal Audit from Process Owners, 4) Independent Auditor's Reports and 5) Report from John Dyer, Mayoral Consultant, to Internal Audit.