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**OFFICE OF THE CITY AUDITOR
Audit Report**

**AUDIT FINDINGS FOLLOW-UP:
STATUS OF
MANAGEMENT ACTION PLANS - 2008**

August 2008



City Auditor
F. Michael Taylor

Stockton, California



CITY OF STOCKTON

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August 29, 2008

Stockton City Council

AUDIT FINDINGS FOLLOW-UP: STATUS OF MANAGEMENT ACTION PLANS - 2008

In accordance with our 2007-2008 audit plan, we have completed the annual follow-up of management action plans to improve conditions reported in audits.

The objective of our audit was to determine whether management's plans for corrective action had been implemented, and whether audit finding conditions were corrected. We verified management's corrective actions through interview, observation, and testing. Included in this year's audit findings follow-up were 28 management action plans with implementation dates of June 30, 2008, or earlier.

We have verified management's correction of six of the audit finding conditions reviewed. Management's corrective actions have resulted in:

- establishment of performance measures and periodic monitoring to assess whether the City's Red Light Camera Program is effectively and efficiently meeting the goals and objectives of the program;
- implementation of procedures to ensure the necessary permits for the installation of red light cameras are obtained and verified by the Police Department;
- clarification and revision to policy and Stockton Municipal Code to ensure all employees that meet the definition of having direct contact with minors will be fingerprinted;
- procedures to ensure that minors are fingerprinted upon completion of the employee's 18th birthday;
- implementation of payroll controls to prevent errors from occurring, or to detect errors after they have occurred; and,
- revision to payroll timesheet procedures to allow for accurate and timely filing of employee timesheets.

The remaining 22 findings to be resolved relate to:

- additional contract oversight of revenue from the sale of Arena suites and sponsorships, and receipt of documentation deliverables by IFG in compliance with their Facilities Management Agreement;
- inequity of Arena concession revenue between City and sports teams;
- identification and resolution of all warranty, service agreement, and preventative maintenance issues for all facilities and equipment under the management of IFG;
- development of policies which define the appropriate use and allocation of suites, premium seating, and event seating for the City's entertainment venues;

- ongoing monitoring and reporting of Arena revenue and expenditures to ensure facility fee percentages are set aside for adequate capital and maintenance costs, and comprehensive capital and operating budgets are structured and developed;
- inventory, proper valuation, and use of unsold Arena sponsorship inventory;
- implementation of a process to ensure that special revenue funds in construction projects are expended for their intended purpose;
- strengthened internal controls over construction contract management and orderly organization of supporting documentation submitted for payment;
- development of a system for forecasting cash flows which will enable the City to make optimal investment decisions;
- strengthening internal controls over golf course passes and gift certificates;
- development of performance measures to assess whether the City's recruitment and hiring efforts are effectively and efficiently meeting the goals and objectives of the process;
- development of processes to ensure that recruitment and hiring data is consistently entered into the NeoGov software application and that the data is complete and accurate;
- use of temporary workers to staff essential positions;
- developing and documenting procedures for payroll processing, time sheet submittal, and granting of access and level of access to the Payroll Module;
- revision of various City administrative directives;
- implementation of an electronic document management system;
- retention of records in accordance with the City's records retention schedule; and
- strengthening internal controls over inventory of fixed assets.

During the current year, management corrected 21 percent of open findings compared to 41 percent last year. The responsible department managers with open findings need to increase their efforts to improve the City's systems of internal control by resolving audit findings in a timely manner.

Additional information about our audit can be found in the attached Audit Report.


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AUDIT FINDINGS FOLLOW-UP: STATUS OF MANAGEMENT ACTION PLANS - 2008

In accordance with the City Auditor's 2007-2008 audit plan, we have completed the annual follow-up of management's action plans to improve conditions reported in audit reports.

BACKGROUND

As each audit assignment is completed, the auditor categorizes the conditions found as either audit findings, suggestions for improvement, or other comments. How a condition is categorized depends on its significance and relationship to the audit objectives.

Audit findings are presented to responsible City management in writing. Management responds to the audit findings with action plans and target dates to make needed improvements. We incorporate management's action plans into the final audit report. We provide our audit reports to the City Council and City management. Additionally, we discuss any significant findings identified in our audit reports with the Audit Committee.

After report issuance, we track audit findings, including the related management action plans and target dates, in a database application. On a quarterly basis, we provide a listing of all open findings to the City Manager's Office to assist in monitoring progress toward corrective action. On an annual basis, we conduct a follow-up review of open audit findings to assess the status of all management's action plans and to verify the implementation of management's corrective action.

Suggestions for improvement are those conditions deemed by the auditor to be of less significance than audit findings. Generally, these are areas where procedures could be more efficient, or where opportunities exist to make minor internal control improvements. These items are reported in a separate memorandum to management, and no follow-up work is performed.

Other comments may appear in the body of our audit reports. These comments may be included to highlight issues that apply to related areas in addition to the specific audit assignment, or to call attention to actions or events that may be of significant interest to the City Council.

OBJECTIVES AND SCOPE

Much of the benefit from audit work is not in the findings reported or the recommendations made, but in the effective resolution of control weaknesses. Management is responsible for resolving audit findings and the Office of the City Auditor performs follow-up procedures to determine whether prompt and appropriate corrective action has been taken on reported findings. We conducted our audit follow-up on management's action plans with target implementation dates of June 30, 2008 or earlier.

METHODOLOGY

On an annual basis, the City Auditor sends a written inquiry to management requesting the status of planned actions that have passed their target implementation date. For planned actions that have not been implemented, management is asked to provide revised plans and target dates. Auditing verifies through interview, observation, and testing those actions represented by management as implemented.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS

During the 2007-2008 fiscal year, there were 28 reportable audit findings with management action plans due to be implemented by June 30, 2008 or earlier. The reportable audit findings and their status are summarized in the tables below.

Management's corrective actions during the year have resolved six of the audit finding conditions.

Department	Audit Title	Finding Number	Status	Original Target Date
City Manager/ Financial Management	Payroll	321A-03	Closed	07/31/2007
City Manager/ Financial Management	Payroll	321A-04	Closed	01/31/2007
Human Resources	Fingerprinting	162-01	Closed	11/01/2007
Human Resources	Fingerprinting	162-02	Closed	11/30/2007
Police	Red Light Camera Program	269-01	Closed	03/01/2008
Public Works	Red Light Camera Program	269-02	Closed	09/26/2007

In resolving the above audit findings, management's corrective actions have resulted in the following improvements:

- establishment of performance measures and periodic monitoring to assess whether the City's Red Light Camera Program is effectively and efficiently meeting the goals and objectives of the program;
- implementation of procedures to ensure necessary permits for the installation of red light cameras are obtained and verified by the Police Department;
- clarification and revision to policy and Stockton Municipal Code to ensure all employees that meet the definition of having direct contact with minors are fingerprinted;
- procedures to ensure that minors are fingerprinted upon completion of the employee's 18th birthday;

Audit Findings Follow-Up
 Status of Management Action Plans – 2008

- implementation of additional controls to verify the accuracy of changes to Payroll module tables, data entry, or manual calculations; and,
- revision to payroll timesheet procedures to require signatures and submission of documents that are a variation of the current official record to Payroll.

Following is a list of the remaining 22 open audit findings. For each open audit finding, we have attached copies of the most recent follow-up reports, which detail the condition, management's action plan, and current status.

Department	Audit Title	Finding Number	Status	Original Target Date	Revised Target Date	Report Page Number
City Manager	Internal Control Evaluation: Events Center	159-01	Open	12/10/2007	03/31/2009	4
City Manager	Internal Control Evaluation: Events Center	159-02	Open	06/30/2007	03/31/2009	5
City Manager	IFG Facilities Management Agreement	160-01	Open	10/01/2007	06/30/2010	7
City Manager	IFG Facilities Management Agreement	160-02	Open	10/01/2007	06/30/2009	8
City Manager	IFG Facilities Management Agreement	160-04	Open	10/01/2007	06/30/2009	9
City Manager	IFG Facilities Management Agreement	160-05	Open	12/31/2007	06/30/2010	10
City Manager	IFG Facilities Management Agreement	160-06	Open	12/31/2007	07/01/2009	11
City Manager	IFG Facilities Management Agreement	160-07	Open	12/31/2007	06/30/2010	12
City Manager	IFG Facilities Management Agreement	160-08	Open	12/31/2007	06/30/2010	13
City Manager	IFG Facilities Management Agreement	160-09	Open	12/31/2007	07/01/2009	14
City Manager/FM*	Investments	221A-01	Open	06/30/2007	12/31/2008	15
City Manager/ CC*	City Clerk	306-03	Open	12/31/2006	12/31/2010	16
City Manager/ CC*	City Clerk	306-05	Open	12/31/2005	12/31/2008	18
City Manager/ FM*	Fixed Assets	310-01	Open	06/30/2007	03/31/2009	19
City Manager/ FM/ HR*	Payroll	321A-01	Open	06/30/2007	09/30/2009	20
City Manager	Administrative Directives	460-03	Open	12/31/2002	06/30/2009	22
Financial Management	Payroll	321A-02	Open	12/31/2007	09/30/2008	24
Human Resources	Management Information Services	182-09	Open	09/30/2001	06/30/2009	25
Human Resources	Recruitment and Hiring	234-01	Open	06/30/2008	12/31/2008	27
Human Resources	Recruitment and Hiring	234-02	Open	02/28/2008	09/17/2008	29
Parks & Recreation	Golf Course Receipts	187-02	Open	05/19/2004	12/31/2008	30
Parks & Recreation	Golf Course Receipts	187-03	Open	09/30/2004	12/31/2008	32

*FM = Financial Management; CC = City Clerk; HR = Human Resources

Historically, over the past five years, the City of Stockton has had a correction rate of roughly 48 percent per year. During the current fiscal year, the correction rate dropped to 21 percent.

We encourage management to take active steps to improve the City's system of internal control by resolving audit findings in a timely manner.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Internal Control Evaluation – Events Center **Finding Number:** 159-01

Department: City Manager **Implemented:** No

Division:

Original Target Date: 12/10/2007 **Current Target Date:** 03/31/2009

Condition:

While we did not identify an inappropriate use of special revenue funds, the City lacks a process in place to ensure that special revenue funds have been expended for their intended purpose once the funds have been appropriated to specific projects.

During the course of our audit, we noted that the Events Center received funds from special revenue accounts including Public Facilities Fees, Measure K, and Gas Tax. Each of these revenue sources has restrictions on how the funds may be used since they were collected for a specific purpose. In receiving these funds, the City has an obligation to ensure the funds are expended according to specific requirements.

The City does not have formal procedures requiring project managers to match expenditures against the restricted revenue sources to ensure compliance. For the Events Center Project, we noted Measure K revenue was recorded under a separate project which recorded expenditures related to the Fremont Street widening project. However, funds from Public Facilities Fees and Gas Tax were recorded under the main Events Center project number, with no clear link as to how the subsequent expenditures satisfied the special revenue restrictions.

Management's Action Plan:

A Project Manager is assigned to each project that involves spending Public Facilities Fees. As projects are designed and built, changes in expenditures are assessed and communicated by the Project Manager through their department. Some changes result in contract change orders. The forms that Project Managers use to communicate changes in design or authorized cost are called by different names in the different departments. Each of these forms will be modified by December 2007 to include an area for the Project Manager to communicate that changes have been considered for their potential impact on use of public facilities fees and other funding sources. If a change does disqualify all or a portion of a funding source from being used on the project, the Project Manager will be responsible to notify their department managers so that a search for viable alternative funding while reducing the disqualified amount from being charged against the planned funding source.

Management Follow-up Comments:

Status at June 30, 2008 Follow-up: Staff met with Accounting and other departments to determine what forms need to be modified. It was determined that project change order forms, funding allocations forms, and any other forms relating to capital project funding will be modified to include the following language:

Do the above changes have any potential impact on the use of Public Facility Fees and/or other restricted funding sources? (Circle one) YES or NO
If yes, please identify what modifications need to be made to the project funding allocations.

Project Managers will be required to address whether project costs remain eligible for restricted funding sources whenever changes are made during project construction.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Internal Control Evaluation – Events Center **Finding Number:** 159-02

Department: City Manager **Implemented:** No

Division:

Original Target Date: 06/30/2007 **Current Target Date:** 03/31/2009

Condition:

During our audit, we noted several internal control weaknesses related to management of city-wide construction projects.

1. The City's contract with Treadwell & Rollo did not contain standard contract clauses. The contract lacked specific terms describing what was to be provided, the basis for making payments, and how progress would be measured and monitored.
2. The City contracted for specific services to assist in contract management but did not ensure these services were rendered.
 - Based on the architects' observations on site, they were required to review and comment on Swinerton's percentage of completion and quality of work in accordance with the construction documents. As evidence of their review, they were to execute the "Architect's Certification of Application for Payment." We noted both architects did not review and certify all of Swinerton's applications for payment. HKS Architects, Inc. (HKS), the architect for the ballpark, certified only 2 of 19 payment applications. For payment application numbers 14 to 19, HKS notified the City that they would not perform the work until the City resolved the payment issues with their invoices. Accordingly, the City reduced the final settlement amount with HKS to adjust for the work that was not performed. 360 Architecture (ThreeSixty), the architect for the arena, stated the initial payment applications provided to them for review were payment application numbers 7, 9, and 10. ThreeSixty did review and certify the remaining payment applications related to the arena as required.
 - The City's contract with Regent Event Center, LLC (Regent) was in place to address project controls, schedule and budget issues. According to the contract, Regent was to provide monthly budget reports to the City. Regent was unable to prepare the reports as the City did not provide them with access to financial data for the project.
3. Total project costs for the Events Center were difficult to determine as not all costs were recorded under assigned project numbers. Costs for the Events Center were recorded under two project numbers as well as allocated to various departments thus making it difficult to determine the total cost of the project. The project also experienced turnover of key staff responsible for tracking project costs. Each individual used a different methodology to track project costs. Costs charged outside the assigned project numbers were overlooked unless the individual tracking the costs knew the specific accounts in which costs were originally recorded.
4. City-wide procedures addressing supporting documentation to be submitted to Accounts Payable with requests for payment are lacking. Payments to Regent, F&H Construction, HKS, and ThreeSixty, were processed without adequate supporting documentation submitted to Accounts Payable. The amount of supporting documentation provided to Accounts Payable varied depending on the individual submitting the invoice for payment. It was unclear whether the detail in support of the invoices was maintained by individuals submitting the invoices. Accounts Payable is often viewed as a control point as all documentation submitted in support of payments is eventually scanned and maintained electronically by check number. Supporting documentation for Events Center invoices was voluminous in some instances and may explain why it was not submitted to Accounts Payable.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Internal Control Evaluation – Events Center **Finding Number:** 159-02

Management's Action Plan:

Management agrees with the need for effective construction contract management and orderly organization of supporting documentation. As pointed out in this finding, Management's current administrative directive regarding contracts expresses the importance of contract monitoring for progress, performance and payment.

Management will ensure that all construction contracts include provisions for deliverables, milestones and payment terms in order that contract performance can be monitored and payment processing expectations are clear.

All contract managers will be expected to monitor the performance of the contracts under the terms of the construction contracts.

Project numbers will be assigned to all projects for which establishing such numbers is necessary to facilitate accurate financial reporting.

Supporting documentation will be maintained by project managers who will note where supporting documentation can be found on all invoices submitted for payment to Accounts Payable that do not have the complete documentation attached.

Management Follow-up Comments:

Status at June 30, 2008 Follow-up: The City is currently in the process of purchasing a new software program that will manage the capital planning process and assist in project management including interfacing with the City's accounting system. Staff has also explored the advantages and disadvantages to using project numbers in the City's accounting system. The next step is to identify best practices for construction contract management and develop a plan for communicating these practices to all City project managers.

Status at June 30, 2007 Follow-up: Staff is currently reviewing standard processes used by project managers for construction contract management. The next step is to develop a plan for communicating to all City project managers the standards for construction contract management including contract terms, supporting documentation, contract monitoring, payment processing, and the use of project numbers.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: IFG Facilities Management Agreement **Finding Number:** 160-01
Department: City Manager **Implemented:** No
Division:
Original Target Date: 10/01/2007 **Current Target Date:** 06/30/2010
Condition:

Based on the ownership relationship of the parties, which was required by the Facilities Management Agreement (FMA), the City's interests related to the operation of the Stockton Event center are at risk, and require additional City oversight. IFG, hired to manage the City's entertainment venues also owns two of the Arena tenants; the Ice Hockey and Indoor Football teams. This creates a conflict of interest between the interests of the City, IFG, and the teams. The impacts of this conflict of interest are increased by the revenue sharing terms contained in the team lease agreements.

In addition, IFG contracted with National Sports Services, LLC (NSS) for the sale of suites and sponsorships. NSS is also employed by the Ice Hockey and Indoor Football teams. Revenue related to the sale of Arena sponsorship inventory is shared with the teams. However, all the revenue related to the sale of Team sponsorship inventory is retained by the teams. NSS creates the sales proposals that distribute the sponsorship funds between Arena and Team inventory.

Management's Action Plan:

The City Manager assigned additional resources and applied a higher level of oversight to California Cougars Team, Stockton Lightning Team, IFG, and Stockton Thunder Team (Teams and Management) contracts. A compliance analyst and budget analyst were immediately assigned to oversee Teams and Management contracts. Contract compliance duties will include operations, language, provisions, requirements, reporting, and monitoring. The Budget analyst will review and provide financial analysis for all budget, financial, and cash management reporting related to these contracts. Additionally the City will seek legal clarification and recommendations regarding conditions/reporting for future potential conflicts of interest to align those interests with the City's best interests. City Management will use executed numbered memorandum to clarify and resolve any policy, contract provision, or operational issues that appear to be impractical, inappropriate, or require amendment to meet the City's best interests.

Management Follow-up Comments:

Status at June 30, 2008 Follow-Up: Two of the three components of this finding are complete: assignment of additional staffing resources, and applied higher level of oversight. IFG has not expressed willingness to renegotiate the current contract and the potential for conflict will exist as long as the current contract is in place. Staff resources will continue at whatever level required until the contract issues are renegotiated or the contract is completed. The first possible termination date of the current contract will be in 2010.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: IFG Facilities Management Agreement **Finding Number:** 160-02
Department: City Manager **Implemented:** No
Division:
Original Target Date: 10/01/2007 **Current Target Date:** 06/30/2009
Condition:

IFG is not in compliance with the Facilities Management Agreement (FMA) related to documentation deliverables. Section 2.2 describes a number of documents IFG is to provide including financial reports, annual operating and capital expenditure budgets, annual business plan, and other planning documents. Required documentation and reports have not been provided, or have not been provided within the required time frame.

Management's Action Plan:

The City Manager's Office and IFG staff meet weekly to review and update operational policies, processes, procedures, and reporting systems. IFG accounting and management staff are successfully prioritizing documentation and reporting requirements identified in this finding and are working diligently to complete all deficiencies in a timely manner. The contract analyst and budget analyst will develop a structured action plan which includes a comprehensive database to track all areas of contract compliance within appropriate reporting periods. These developed structures and schedules will allow timely discussion and implementation of business and operational policies and actions.

Management Follow-up Comments:

Status at June 30, 2008 Follow-Up: Follow up includes weekly meetings with the IFG management team. Staff is tracking compliance with reporting requirements. A quarterly schedule has been prepared for monthly financial reporting requirements due each quarter. IFG staff will be updating the Annual Business Plan, submitting Budgets and CIP for the next quarter review.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: IFG Facilities Management Agreement

Finding Number: 160-04

Department: City Manager

Implemented: No

Division:

Original Target Date: 10/01/2007

Current Target Date: 06/30/2009

Condition:

IFG is not in compliance with aspects of the Facilities Management Agreement (FMA) related to facilities maintenance, and there is confusion as to which venues are to be maintained by IFG. Prior to the hiring of the current Director of Facilities Operations, equipment service contracts were allowed to lapse, and there is no preventative maintenance program in place. In addition, quarterly maintenance reports are not being generated and provided to the City to track what maintenance had been performed, and what scheduled maintenance tasks were outstanding.

Management's Action Plan:

IFG staff are identifying and resolving all warranty, service agreement, and preventative maintenance program issues for all facilities and equipment. Any inadequate or expired service agreements or warranties will be renewed or updated. IFG staff identified and plan to purchase a new software program to track and report on maintenance actions and recordkeeping requirements.

City Manager's Office, IFG staff, and Central Building Maintenance Staff will meet and evaluate all maintenance issues, clarify those issues relating to maintenance responsibilities, and clearly define expectations. City Staff will visually inspect equipment and facilities and report findings on standard of care. City staff and IFG staff will use reports and inspection data to identify problems and recommend efficient solutions to deficiencies.

Management Follow-up Comments:

Status at June 30, 2008 Follow-Up: Warranties and service agreements are ready for review by City staff. A software program has been purchased and was ready by the March 1st target date. Oak Park Ice Arena maintenance has transitioned completely to IFG. A facilities tour with the City staff is scheduled in the first quarter of 2008/2009 when staff will review all maintenance requirements and ensure all facilities and equipment are accounted for in the software program.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: IFG Facilities Management Agreement

Finding Number: 160-05

Department: City Manager

Implemented: No

Division:

Original Target Date: 12/31/2007

Current Target Date: 06/30/2010

Condition:

The City's decision to retain a luxury suite, 20 club seats, and other premium seating has added to the financial losses incurred at the entertainment venues. Since the Arena opened, all 22 of the luxury suites available for sale have been sold, at approximately \$40,000 each per year. In the first year, all 344 club seats were sold, at \$1,750 each. As of February 2007, 245 club seats were sold.

The City's current ticket policy speaks only to the order of ticket distribution, and does not describe a purpose beneficial to the City.

Management's Action Plan:

City will research best practices by jurisdictions that own entertainment venues to develop policy which clearly defines the appropriate use and allocation of suites, premium seating, and event seating. City will determine whether the suite should be maintained for business purposes or offered up for resale. Crafted policy should support the City control of unsold suites, premium seating, and event seating inventory.

Management Follow-up Comments:

Status at June 30, 2008 Follow-Up: Staff has researched best practices by other jurisdictions that own entertainment venues. Four suites will be eligible for renewal this fall season. City Suite is available for sale on individual event basis.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: IFG Facilities Management Agreement

Finding Number: 160-06

Department: City Manager

Implemented: No

Division:

Original Target Date: 12/31/2007

Current Target Date: 07/01/2009

Condition:

Arena sponsorship inventory may not be properly valued, which could impact sponsorship revenues as expiring agreements are renewed. Arena inventory was initially valued before there was any experience with the Stockton market. In addition, the initial valuation was conducted by National Sports Services, LLC (NSS). The services of NSS were contracted by IFG, both as manager of the Arena, and also by the Ice Hockey and Indoor Football team, which represents a conflict of interest.

Management's Action Plan:

This appears to be an appropriate time for the City to review and clarify all areas of contract compliance involving sponsorship, suites, sales, agreements, signage, advertising, naming rights, revenue formulas/calculations, and allocations. Terms and definitions relating to sponsorship should be clearly defined as well should City responsibility to approve corresponding revenue issues. As part of the comprehensive approach to contract compliance, a database and reporting timeline will be developed to collect relevant data as the basis of a city review and analysis of sponsorship opportunities.

Management Follow-up Comments:

Status at June 30, 2008 Follow-Up: The City has completed a review of Arena sponsorships. The sponsorship valuation structure has been updated. A spreadsheet of valuation is reported to the City on a quarterly basis. When filler signs are used, the nature of the "filler" agreement is in writing. City Departments are working with the Arena staff to develop filler signs to promote City interests.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: IFG Facilities Management Agreement

Finding Number: 160-07

Department: City Manager

Implemented: No

Division:

Original Target Date: 12/31/2007

Current Target Date: 06/30/2010

Condition:

IFG has used Facility Fee revenue to meet operating expenses without the required approval. IFG had not submitted a budget for the 2006-07 fiscal year, which is the basis for City funding of working capital needs. Absent funding from the City, IFG utilized available funds for operating expenses.

Management's Action Plan:

Contract elements have been clarified and IFG staff are comfortable with the expectations and timelines. This finding has been addressed and a new plan is in place. Ongoing monitoring and reporting of expenditures and revenue will confirm facility fee revenue percentages are set aside for adequate capital and maintenance costs, and comprehensive capital and operating budgets were appropriately structured and developed.

Management Follow-up Comments:

Status at June 30, 2008 Follow-Up: Staff is monitoring Arena expenditures and revenues. The Arena is still operating at a deficit.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: IFG Facilities Management Agreement

Finding Number: 160-08

Department: City Manager

Implemented: No

Division:

Original Target Date: 12/31/2007

Current Target Date: 06/30/2010

Condition:

The City's contract with the concessions vendor states that the City shall receive 20% of catering revenue. However the Team Lease Agreements with the Hockey and Football teams state that the teams are paid 30% of catering revenue. The City pays teams 10% more than is received from catering revenue.

Management's Action Plan:

City staff will address this contract inequity with IFG/Teams during negotiations at an appropriate time.

Management Follow-up Comments:

Status at June 30, 2008 Follow-Up: City staff will address this contract inequity with IFG/Teams when negotiations take place. The City has requested, but IFG has not agreed to enter into contract negotiations.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: IFG Facilities Management Agreement

Finding Number: 160-09

Department: City Manager

Implemented: No

Division:

Original Target Date: 12/31/2007

Current Target Date: 07/01/2009

Condition:

Unsold Arena sponsorship inventory could be used to better serve the interests of the City. To promote a successful image, it has been the practice for unsold Arena sponsorship inventory, such as concourse or score board signage, to be filled. In some cases, the filler signage relates to a sponsor with advertising in other parts of the Arena. In other cases, the signage relates to a team sponsor, for which the City receives no benefit or share in the revenue.

Management's Action Plan:

City Management will use accurate detailed inventory of sponsorship, signage, and advertising to quantify data and develop a value analysis. City will use the data to report if inventory is or is not used for the city's best interest. City will track contract timelines and address contract issues based on analysis. City will also provide a comparison of similar sponsorship revenues and values at similar facilities and report on those findings.

Management Follow-up Comments:

Status at June 30, 2008 Follow-Up: The new Sponsorship Manager had been actively selling sponsorship opportunities that meet the City's best interests. A spreadsheet of valuation has been established and is monitored and reported to the City on a quarterly basis. When filler signs are used, the nature of the "filler" agreement is in writing. City Departments are working with Arena staff to develop filler signs to promote City interests.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Investments

Finding Number: 221A-01

Department: City Manager

Implemented: No

Division:

Original Target Date: 06/30/2007

Current Target Date: 12/31/2008

Condition:

The City of Stockton lacks a system for forecasting cash flows, which then limits the City's ability to make optimal investment decisions. Administrative Services makes a concerted effort to anticipate and develop cash flow projections, but must depend on other departments to develop and communicate cash flow information on a timely basis. Without sufficient authority to compel departments to become more communicative regarding their cash flow activities, Administrative Services will continue to have incomplete cash flow information.

Historically, the City has maintained the maximum allowed \$40,000,000 balance on account with the Local Agency Investment Fund (LAIF), to compensate for the lack of accurate cash flow forecasting. Other investments have typically been reinvested upon maturity.

The City has procured an investment consultant with expertise to manage the City's Investment portfolio. The opportunity to utilize the investment consultant's knowledge of market conditions and take advantage of investment opportunities increases the benefits that can be derived from accurate cash flow forecasting.

Management's Action Plan:

The City Manager's office will take the following steps to support the development and maintenance of a reliable cash flow forecast.

1. Hold a discussion at the Executive Team Meetings at least once per month that covers the major expected inflows and outflows on the horizon.
2. Require that all departments participate in development of a sustainable cash flow model based on the adopted budget, funding sources, and cyclical needs. Projections requested by Administrative Services are for the purpose of identifying short and long-term cash needs that will in turn be used to optimize investment of the City's available funds.
3. Require that all departments meet quarterly with the Administrative Services Department to review their projections and update as required.

Management Follow-up Comments:

Status at June 30, 2008 Follow-Up: The City has procured an Investment Manager and is gathering better cash flow information from departments. The Department of Financial Management is awaiting completion of the revised budget process so that the Investment Manager can build long term projections into their cash flow models.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: City Clerk **Finding Number:** 306-03
Department: City Manager **Implemented:** No
Division:
Original Target Date: 12/31/2006 **Current Target Date:** 12/31/2010
Condition:

The City Council has recently adopted a record retention and management policy City-wide. While there are numerous manual records that are kept by the City, electronic records make up a significant portion of the City records. In the development of record retention plan, there needs to be an emphasis on policies, procedures and practices relating to how computer records are managed and retained, as well as manual records.

City-wide controls and accountability over computer records is necessary because creators of records, users of records, City departments, City Attorney and Administrative Services – Information Technology all have a degree of control and influence over vital records. Each of the above has significant control over how records are managed, placed on the record retention schedule and which records are retained after the required retention period has passed.

There are significant issues in which coordination of effort between groups is needed such as:

- Computer records often have a paper copy kept. It is uncertain whether the record retention schedule for the same document in both paper and computer form is adhered to simultaneously.
- The City's record retention in many cases is longer than two years and varies in accordance with each department's record retention needs. GroupWise may not be capable of handling the diverse record retention schedules needed by the City.
- Other technologies storing public records, GroupWise, or other computer technology that can handle different record retention schedules need to be explored. There are issues involving responsibilities over records and what procedures should be used to monitor the process of electronic record management. Issues that need to be resolved include access rights to records, periodic review of records for determination of record retention, record security, hardware and software used to store records and naming conventions of records so they can be located more easily.
- Software and other computer systems may store information for long periods of time. If a computer software system becomes obsolete, the transfer of data from one medium to another is necessary to preserve key records. Public records are at risk if technology cannot successfully transfer records to other technology.
- Departments testing disaster recovery systems periodically to determine electronic records can be recovered in an efficient and effective manner.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: City Clerk

Finding Number: 306-03

Management's Action Plan:

On December 14, 2004, City Council Resolution 04-0803 was adopted authorizing the City to enter into a contract with THIRDWAVE CORPORATION to provide enterprise document management consulting services in the amount of \$95,165 to evaluate its stand-alone document and records management systems and to make recommendations for an Electronic Document Management System. The consulting services will include recommendations regarding the City's current electronic document management system, the management of electronic records to include an imaging solution and suggestions of policies and procedures for the City to adopt. It will take some time for the study to be done, recommendations to be drafted, and decisions to be made regarding policies and procedures to be implemented.

Management Follow-up Comments:

Status at June 30, 2008 Follow-Up: EMC-Documentum has been selected to provide implementation services, backfile and document/records conversion, and content storage along with automated workflow. Negotiations are ongoing and the intent is to deliver a signed contract to the City Council in September. In the area of Records Management, a consultant assisted the City in updating our Retention Schedule to include any new State or Federal laws that govern Records retention. We have completed those updates and intend to present the revisions to the City Council in the late September timeframe as part of the EMC Contract.

Status at June 30, 2007 Follow-Up: A consulting firm has been hired to assess internal readiness, help with vendor selection, perform cost benefit analysis, and to assist with vendor contract negotiations (should the first two items show environmental readiness/fitness). Target date for starting implementation is January 2008 with completion estimated within 36 months.

Status at June 30, 2006 Follow-Up: An Electronic Document Management System has been approved in the 2006-2007 budget. City staff is coordinating implementation efforts.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: City Clerk **Finding Number:** 306-05
Department: City Manager **Implemented:** No
Division:
Original Target Date: 12/31/2005 **Current Target Date:** 12/31/2008

Condition:

In our observation and review of record storage, we noted contents that were several years old and possibly kept in excess of the established retention periods. We also reviewed and observed records outside our sample at various storage sites. In some cases, we observed records in excess of 70-80 years old. Many records appear to have exceeded their useful life and the cost benefit to the City in retaining the above records needs to be assessed.

Management's Action Plan:

The City Manager's Office will draft a memo to all City departments who may have old and outdated records at various sites that may no longer serve any legal, operational or enduring purpose. The memorandum will mandate that records be inventoried and retained in accordance with the City's records retention schedule. Because the above records involve more analysis in order to determine records status, it may take a period of time to properly evaluate each records status in accordance with the records retention schedule and handle records appropriately.

Management Follow-up Comments:

Status at June 30, 2008 Follow-up: File boxes residing in the City Hall Penthouse belong to Financial Management, Public Works, Housing/Redevelopment, and Neighborhood Services. The City Manager's Office will be notifying each department to address their files for review of retention compliance.

Status at June 30, 2007 Follow-Up: All files were removed from the old Fire Company No. 1 location. Additional file clean-up is still needed in the City Hall attic. It is anticipated that this next phase will be completed by January 31, 2008.

Status at June 30, 2006 Follow-Up: A memo was drafted to all City departments. Individual departments are in the process of reviewing files stored at various sites.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Payroll **Finding Number:** 321A-01
Department: City Manager **Implemented:** No
Division:
Original Target Date: 06/30/2007 **Current Target Date:** 09/30/2008

Condition:

Though there are payroll related Administrative Directives, the City does not maintain comprehensive, written, citywide policies and procedures related to payroll processing. The responsibility for complete and accurate payroll extends to every City employee, in every department. In the absence of citywide guidance, the City is missing an opportunity to promote uniformity in processing, and to emphasize critical roles and activities of the internal control structure. In addition, policies and procedures could formalize segregation of duties by describing the responsibilities of each participant in the payroll process, while listing incompatible activities for each.

To be effective, employees in critical positions should receive training to ensure they understand the policies and procedures, written guidance should be made readily available, and each department's operational processes should be surveyed and monitored to ensure correct implementation.

Management's Action Plan:

The Human Resources Department and the Administrative Services Department – Payroll Unit will collaboratively review the segregation of duties between the departments to insure that proper internal controls are in place to properly safeguard the assets of the City of Stockton. Written policies and procedures will be developed that clearly define the division of responsibilities. The Human Resources Department and the Administrative Services Department – Payroll Unit will develop a meeting schedule to develop these documents.

In addition, both departments will review the payroll processes in each department and develop consistent procedures for the user departments. To develop uniformity, training will be conducted for the payroll users in each department. A first training on the proper use of the Payroll system will be conducted by HTE in July 2006.

Management Follow-up Comments:

Status at June 30, 2008 Follow-up: Staff from the Human Resources Department and the Department of Financial Management have met regularly over the past months to address this finding. The team decided to diagram the process that is followed to establish an employee in the Payroll module and then the various steps required to pay an employee. Diagrams, along with supporting exhibits, were developed which clearly identify the specific roles that are played in this process by the employee, the employee's home department, the Human Resources Department and Payroll Unit. The different colored shapes used on the diagrams provide a visual presentation of the segregation of duties between departments and also serve to emphasize the critical roles of the internal controls that are in place to safeguard City assets.

The goal of the team was to develop documentation that is clear and easy to understand that could be readily used as a training tool and reference source for the departmental payroll users. The team believes that this objective was met. Training will be scheduled with the payroll users in the coming months.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Payroll

Finding Number: 321A-01

Status at June 30, 2007 Follow-up: The Human Resources Department and the Administrative Services Department have been meeting consistently to address this finding. The segregation of duties between departments has been reviewed and it has been determined that proper internal controls are in place to safeguard City assets. The payroll processing responsibilities of the Human Resources Department are documented and procedures have been developed. The Administrative Services Department is continuing to document citywide policies and procedures related to payroll processing, including the responsibilities of the user departments. The Finance Division has assigned an internal auditor to work with Payroll staff to assist with the development of the documentation. Training will be provided to the payroll users in each department.

REPORT OF OPEN AUDIT FINDINGS

ATTACHMENT

Audit Name: Administrative Directives
Department: City Manager

Finding Number: 460-03

Directive	Title	Effective Date	Current Target Date	Exhibit Appendix Updated	Status	Date Verified
MAN-15*	Emergency Plans	9/15/1982	6/30/2009	No	Open	
MAN-17	Health Insurance Advisory Committee	11/15/1989	6/30/2009		Open	
MAN-19	Economic Review Committee (ERC)	6/1/1994	6/30/2009		Open	
MAN-03*	Budget Transfer Administrative Policy	9/2/1997	9/30/2003	Yes	Closed	12/19/2003
MAN-04	Departmental Orientations	5/8/1995	9/30/2003		Closed	6/24/2004
MAN-04A	Departmental Orientation Form		9/30/2003		Closed	6/24/2004
MAN-04B	Departmental Orientation Critique Sheet		9/30/2003		Closed	6/24/2004
MAN-07*	City Council Inquiries/Complaints	3/15/1979	9/30/2003	No	Closed	6/24/2004
MAN-08	Correspondence: External	1/1/1997	9/30/2003		Closed	12/13/2004
MAN-08S	Sample Simplified Letter		9/30/2003		Closed	12/13/2004
MAN-09	Correspondence: Internal (Memorandum)	1/1/1997	9/30/2003		Closed	12/13/2004
MAN-09S	Sample Memorandum		9/30/2003		Closed	12/13/2004
MAN-11	Administrative Procedure Directive Changes	3/15/1979	9/30/2003		Closed	6/24/2004
MAN-12*	Grants – Application Procedure	12/2/1992			Closed	12/17/2002
MAN-13*	City Manager's Agenda Report to the City Council	4/1/1998	6/30/2008	No	Closed	4/4/2008
MAN-13E	Resolution Memo Sample		6/30/2008	No	Closed	4/4/2008
MAN-13F	Committee Meeting Sample		6/30/2008	No	Closed	4/4/2008
MAN-13G	Staff Report Sample		6/30/2008	No	Closed	4/4/2008
MAN-13H	Legislation Adoption Sample		6/30/2008	No	Closed	4/4/2008
MAN-13M	Multiple Committee Meeting Sample		6/30/2008	No	Closed	4/4/2008
MAN-13T	Transmittal of Material for City Council Agenda		6/30/2008	No	Closed	4/4/2008
MAN-18	Affirmative Action Guidelines for Federal Funded Pro.	10/8/1997	9/30/2003		Closed	10/5/2004
MAN-20*	Electronic Monitoring System (CityLink)	2/1/1991	9/30/2003	No	Closed	6/24/2004
MAN-22	Employee Suggestion Program	9/1/1996	7/31/2005		Closed	8/19/2005
MAN-23*	Communications Policy	10/20/1999	9/30/2003	Yes	Closed	10/5/2004
MAN-24	Cable T.V. Channel 42 – Government Channel Prog.	3/15/1994	9/30/2003		Closed	10/5/2004
MAN-25	Contracts, Management of	8/2/2000	9/30/2003		Closed	10/5/2004
MAN-26	Staff Committee Structure	6/3/1996			Closed	3/27/2003
MAN-26A	Committee Formation Form				Closed	3/27/2003
P&R-02	Civic Memorial Auditorium	3/15/1979	9/30/2003		Closed	10/5/2004

*Directive references that an appendix or exhibit is attached but is not available in GroupWise

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Payroll	Finding Number: 321A-02
Department: Financial Management	Implemented: No
Division:	
Original Target Date: 12/31/2007	Current Target Date: 09/30/2008

Condition:

The City relies heavily on computer application controls to secure confidential data and assets. We identified the following conditions related to computer application controls:

- a. The payroll module has two owners, which requires a degree of coordination beyond what currently exist.
- b. There are no written policies and procedures to address who should have access.
- c. Module owners are not informed of access changes made by IT.
- d. Authority for determining who belongs in established access groups are made at the department level, rather than by the module owners.

Management's Action Plan:

Recognizing the importance of privacy and the increased concern over identity theft, the Human Resources Department in collaboration with the City Attorney and the Administrative Services Department – Payroll Unit and the Information Technology (IT) Division will develop written policies and procedures for the granting of access and the level of access required to the Payroll Module. This access will be based specifically on assigned job duties. The Human Resources Department will also audit current users to determine appropriate access assignment. A committee will be formed comprised of staff from the Human Resources Department and the Administrative Services Department – Payroll Unit and the IT Division to meet on a regular basis to develop appropriate criteria.

Management Follow-up Comments:

Status at June 30, 2008 Follow-up: A draft City Manager Administrative Directive "HTE Payroll/Personnel Module Access" has been submitted to the Executive Team for approval.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Management Information Services

Finding Number: 182-09

CPS concluded that the City should consider replacing the large number of temporary staff with full-time employees for operational efficiency and reliability. It was noted that although the use of temporary staff may have the appearance of short-term cost savings, it was determined that this process is costing the City more resources in its long-term operation in the following quality and quantity measures: productive time; level of deliverables and service products; continuity of services; quality control; reliability of operation; skill set and knowledge consistency; training and learning curve; work assignment and scheduling flexibility; and accountability of service qualities. Specifically, their recommendation was to allocate temporary staff to full-time positions of Administrative Assistants and Micro-Computer Specialists. This recommendation has not been implemented by the City Manager due to the excessive costs associated with the allocation of eight (8) additional positions.

The City Information Technology Committee is also reviewing the IT organization structure and staffing. This committee is tasked with making recommendations to the City Manager that will increase overall IT effectiveness in meeting the City's current and future needs.

Status at June 30, 2002 Follow-Up: A Management Study recommended converting temporary positions at the Help Desk and Administrative personnel into regular positions. A City IT committee formed after being recommended in the audit report is currently exploring alternatives to the recommendation identified in the Management Study. Such alternatives may be to contract out with an agency to provide technical support (Help Desk). The IT Committee is meeting monthly to discuss this issue. However, this is not the only alternative. As previously stated, alternatives are still being considered. Also, the ability of converting temporary staff to permanent status requires Council action along with the budgetary process."

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Recruitment and Hiring

Finding Number: 234-01

Management Follow-up Comments:

Status at June 30, 2008 Follow-up: The Workforce Planning Unit will facilitate a retraining course for all Human Resources Liaisons and Department Heads to insure the integrity of the data within NeoGov. In reviewing the reports generated from NeoGov, Workforce Planning noticed several crucial data components were omitted. These data components were the dates of interviews, dates of hiring, and official start date. The training which will target accurate and complete input of the data components will be facilitated by September 17, 2008.

After resolving the issue of data integrity, Human Resources will establish a 90 day threshold from when recruitments are assigned to an Analyst. All recruitments will be expected to adhere to the threshold exception those designated as "hard to fill," require the use of outside search firms, or have been placed on "hold" or "frozen." Data concerning the recruitment timeliness, advertising costs, number of applications received, and overall timeliness of the examination plan will be reviewed on a weekly basis during the Workforce Planning Unit meeting each Tuesday.

In addition to reviewing data within NeoGov, the Workforce Planning Unit has created a customer service survey, which will be provided to all Subject Matter Experts and customers to obtain feedback concerning the services provided by Human Resources. The survey will be administered electronically and reports will be generated for the Deputy Director of Human Resources quarterly.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Golf Course Receipts

Finding Number: 187-02

through one point. Because the POS will be networked to our main CLASS server, patrons will have the flexibility to use certificates and passes at either of our courses. All aspects of our golf operation will be streamlined and more secure by implementing this system.

Status at June 30 2006 Follow-Up: A procedure on handling gift certificates was developed and implemented in April 2006. This procedure has been added to the Golf Operations Manual. The department is looking at the possibility of limiting the use of the gift certificates to the Golf Course where the gift certificates were issued due to the issues identified with maintaining and reconciling separate logs at both golf courses. Adding magnetic strips or converting the gift certificates to magnetic cards will be postponed due to cost considerations.

Status at June 30, 2005 Follow-Up: The Parks & Recreation department is currently recruiting a new Golf Manager and needs to give the person hired for the position time to establish procedures.

Status at June 30, 2004 Follow-Up: Effective May 19, 2004, all golf course staff were required to log all gift certificates sold with the amount of that certificate. Parks and Recreation is also working with the Purchasing Division of Administrative Services to select a vendor for magnetic card gift certificates. We anticipate having the magnetic strip gift cards by October 1, 2004.

REPORT OF OPEN AUDIT FINDINGS

Audit Name: Golf Course Receipts

Finding Number: 187-03

procedure will be incorporated in the Golf Operations Manual. Conversion of passes to magnetic cards is postponed due to cost considerations. The department is looking at the possibility of limiting the use of the passes to the Golf Course where the pass was issued. The department will make this determination by December 31, 2006.

Status at June 30, 2005 Follow-Up: The Parks & Recreation department is currently recruiting a new Golf Manager and needs to give the person hired for the position time to establish procedures.

Status at June 30, 2004 Follow-Up: The Parks and Recreation Department is working with the Purchasing Division of Administrative Services to select a vendor for providing a magnetic card program that can be used for golf passes as well as gift certificates. We anticipate having the magnetic strip cards by October 1, 2004

CITY AUDITOR MISSION STATEMENT

The Office of the City Auditor independently promotes ethical, efficient and effective governance for the citizens of Stockton. We provide the City Council, management, and employees with objective analyses, appraisals, and recommendations for improvements to City systems and activities. The department maintains independence and objectivity by reporting directly to the City Council and by not exercising direct authority over any department, system, or activity subject to audit.

