



Nimish Patel, Committee Chair  
Sue Himmelrich, Committee Vice-Chair  
Frances Ellington, Committee Member  
Pam O'Connor, Committee Member  
Tony Vazquez, Committee Member

## **AUDIT SUBCOMMITTEE MEETING AGENDA**

Tuesday, August 30, 2016, 7:00 P.M.

Ken Edwards Center  
1527 4<sup>th</sup> Street, Room 104  
Santa Monica, CA 90401

**(This is a special City Council meeting. Public comment is restricted to only items listed on the agenda. Please note that agenda items may be reordered during the meeting at the discretion of the Audit Subcommittee.)**

1. Call to Order and Roll Call
2. Public Input
3. Approval of Minutes for the Audit Subcommittee April 19, 2016 Meeting
4. Clarification of the Roles and Responsibilities of the Audit Subcommittee of the Santa Monica City Council (Subcommittee Report)
5. Receive an Update on Ambulance Billing and Benefits Billing Reviews (presented by Mark Steranka, Partner, Moss Adams LLP)
6. Receive an Update on Internal Audit Work Plan (presented by Mark Steranka, Partner, Moss Adams LLP)
7. Receive an Update on Internal Controls Review Progress (presented by Gigi Decavalles-Hughes, Director of Finance)
8. Review Policies and Procedures for Internal Controls (presented by Gigi Decavalles-Hughes, Director of Finance)
  - a. Wire Transfer
  - b. Purchasing Card
9. Adoption of a Resolution of the Audit Subcommittee of the Santa Monica City Council Establishing Regular Meeting Dates (Subcommittee Report)
10. Adjournment

**Please note that this agenda is subject to change up to 24 hours prior to the scheduled meeting.** We encourage you to check the agenda 24 hours prior to the meeting on the Audit Subcommittee website: <http://www.smgov.net/departments/council/content.aspx?id=53159>

**STANDARDS OF BEHAVIOR THAT PROMOTE CIVILITY AT ALL PUBLIC MEETINGS:**

- Treat everyone courteously
- Listen to others respectfully
- Exercise self-control
- Give open-minded consideration to all viewpoints
- Focus on the issues and avoid personalizing debate
- Embrace respectful disagreement and dissent as democratic rights, inherent components of inclusive public process, and tools for forging sound decisions

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*This agenda is available in alternate format upon request. Any documents produced by the City and distributed to a majority of the Subcommittee regarding any item on this agenda can be requested from the Finance Department at (310) 458-8281 or [finance.mailbox@smgov.net](mailto:finance.mailbox@smgov.net) during normal business hours.*

NOTICE OF A SPECIAL MEETING OF THE  
SANTA MONICA AUDIT SUBCOMMITTEE

TUESDAY, AUGUST 30, 2016

**MEETING BEGINS AT 7:00 P.M.**

NOTICE IS HEREBY GIVEN that a special meeting of the Audit Subcommittee will be held at 7:00 p.m., on Tuesday, August 30, 2016, at the Ken Edwards Center, 1527 4<sup>th</sup> Street, Santa Monica for the purpose of conducting the following business:

See attached August 30, 2016 City Council Agenda.

ADJOURNMENT

No other business will be conducted at the special meeting.

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NIMISH PATEL  
COMMITTEE CHAIR

  
SUE HIMMELRICH  
COMMITTEE VICE-CHAIR

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TONY VAZQUEZ  
COMMITTEE MEMBER

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PAM O'CONNOR  
COMMITTEE MEMBER

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FRANCES ELLINGTON  
COMMITTEE MEMBER

(NOT APPROVED)

CITY OF SANTA MONICA

AUDIT SUBCOMMITTEE MEETING

MINUTES

TUESDAY, APRIL 19, 2016

A regular meeting of the Santa Monica Audit Subcommittee was called to order by Chair Patel, at 7:05 p.m., on Tuesday, April 19, 2016, at Ken Edwards Center, 1527 Fourth Street, Santa Monica, CA 90401

Roll Call: Present: Committee Member Frances Ellington  
Vice Chair Sue Himmelrich  
Committee Member Tony Vazquez  
Chair Member Nimish Patel

Absent: Committee Member Pam O'Connor

Also Present: Director of Finance Gigi Decavalles-Hughes  
Assistant City Manager Elaine Polachek  
City Attorney Marsha Moutrie  
City Clerk Denise Anderson-Warren

CONVENE On order of Chair, the Audit Subcommittee convened at 7:05 p.m., with Committee Member O'Connor absent.

PUBLIC INPUT There were no members of the public present.

MINUTES 3. **Approval of Minutes for the Audit Subcommittee January 19, 2016 Meeting**, were presented.

There were no members of the public present.

Motion by Vice Chair Himmelrich, seconded by Committee Member Ellington, to approve the minutes as presented. The motion was approved by the following vote:

AYES: Committee Member Ellington, Vice Chair Himmelrich,  
Chair Patel

ABSTAIN: Committee Member Vazquez

ABSENT: Committee Member O'Connor

INTERNAL AUDIT WORK PLANS 4. **Receive a Status Update on the FY 2015-16 Internal Audit Work Plan, and Review and Approval of the FY 2016-17 Internal Audit Work Plan** (Subcommittee Report) – presented by Mark Steranka, Partner, Moss Adams LLP, was presented.

There were no members of the public present.

Mr. Steranka reported that his company, who are responsible for the internal audit, also helped with the external audit in a minimal way, as requested, and was an advisor for reconciliation. The areas covered were:

- Bank Reconciliation Support
- External Audit Preparation Support
- Ambulance Billing Review
- Benefits Billing and Reconciliation Review
- On-going Internal Audit Services

Questions were raised about the timing of the Subcommittee's next meeting in October, and the importance of reviewing the progress on the 2015-16 Single Audit report prior to submitting the report to the Federal Government. Members agreed that they would receive an overview of the report in January, rather than review the draft. Direction was given to staff to create a fourth meeting and call a Special Meeting in August or September. Direction was also given to staff to provide clarification on the roles and responsibilities of the Subcommittee members at the next meeting.

Questions were asked and answered from staff regarding: if the benefit reviews were specifically concentrating on paying benefits for deceased; concerns about the Ethics hotline, and accountability for complaints being filed (the Assistant City Manager noted that metrics on the Ethics hotline would be provided to Council); the timing of the Risk Assessment (to be completed in October 2016); whether Risk Assessment questions are specific and who will be interviewed (Department Heads, Council, mid-management); Supervisor training, how this will be accomplished, and what areas will be covered (Supervisor handbook and training in September 2016); and whether there is enough staffing to complete the Risk Assessment in the scheduled timeframe.

Motion by Vice Chair Himmelrich, seconded by Committee Member Vazquez, to receive and file the status update on the Internal Audit Work Plan for FY 2015-16, and approve the Internal Audit Work Plan for FY 2016-17. The motion was unanimously approved by voice vote, with Committee Member O'Connor absent.

## **SINGLE AUDIT REPORTS**

5. Receive the Revised Single Audit Report for FY 2013-14 and the Single Audit Report for FY 2014-15 – presented by Gigi Decavalles-Hughes, Director of Finance.

There were no members of the public present.

The Finance Director gave an overview of the report.

Questions were asked and answered from staff regarding why the 2013/14 report was reissued, and when old findings fall off. There was an outstanding finding, and Finance has hired an Analyst specifically for Grants to make sure reconciliations and completed projects are captured.

Motion by Vice Himmelrich, seconded by Committee Member Vazquez, to receive and file the Revised Single Audit Report for FY 2013-14, and the Single Audit Report for FY 2014-15. The motion was unanimously approved by voice vote, with all members present, or with Committee Member O'Connor absent.

**NEW AUDITOR**

**6. Introduction and Overview of Upcoming FY 2015-16 Audit Process – presented by Richard Kikuchi, Partner, Lance, Soll & Lunghard, LLP, was presented.**

There were no members of the public present.

Richard Kikuchi presented the processes they are currently going through in preparation for the upcoming FY2015-16 audit, which included meeting with the previous Auditor and Big Blue Bus; Reviewed the Single Audit and the Comprehensive Annual Financial Report (CAFR). The areas they plan to cover include: Airport Analysis and revenues generated; Big Blue Bus inventory issues; Good internal controls of cash and credit card usage; Best practices; and schedule Executive Sessions at the beginning of the planning stages.

Questions were asked about materially, what and when will they come back and report to the committee, and render an opinion on the City's financial state.

Motion by Vice Chair Himmelrich, seconded by Committee Member Vazquez, to receive and file the Overview of the Upcoming FY 2015-16 Audit Process. The motion was unanimously approved by voice vote, with all members present, or with Committee Member O'Connor absent.

**ANNOUNCEMENTS & UPDATES**

There were no announcements or updates.

**ADJOURNMENT**

On order of the Chair, the Santa Monica Audit Subcommittee meeting was adjourned at 8:27 p.m.

ATTEST:

APPROVED:

Denise Anderson-Warren  
City Clerk

Nimish Patel  
Chair



## **Santa Monica Audit Subcommittee Report**

**Audit Subcommittee of the Santa Monica City Council**

**Meeting: August 30, 2016**

**Agenda Item: 4**

To: Chairperson and Members  
From: Gigi Decavalles-Hughes, Director of Finance  
Subject: Clarification of the Roles and Responsibilities of the Audit Subcommittee of the Santa Monica City Council

### **Recommended Action**

Staff recommends that the Audit Subcommittee of the Santa Monica City Council receive a report from staff and auditors on the roles and responsibilities of Subcommittee members.

### **Executive Summary**

On July 28, 2015, the Council adopted a resolution establishing an Audit Subcommittee in accordance with best practices in financial management. The resolution identifies the duties and responsibilities of the Subcommittee. This staff report clarifies the practical application of these responsibilities.

### **Background**

On July 28, 2015, as authorized by Resolution No. 10901 (CCS), the Audit Committee (Audit Subcommittee) of the Santa Monica City Council was established. The purpose of the Audit Subcommittee (Subcommittee) is to assist the Council in fulfilling their oversight responsibility for the financial reporting process, the framework for internal control, and the audit process. The duties and responsibilities of the Subcommittee were set forth in the attached resolution based on the principles of the Sarbanes-Oxley Act and best practices guidelines. In a discussion at its April 19, 2016 meeting, the Subcommittee members expressed an interest in further clarifying their roles and responsibilities in relation to the City's internal and external audit processes.

## Discussion

The following matrix provides practical applications of the responsibilities identified in the Resolution of the City Council of the City of Santa Monica Establishing an Audit Committee resolution.

Responsibility per Resolution Section 6	Processes to satisfy responsibility
<p>Review upon completion, all City audit reports, analyze all findings in audit report(s) and consult with the external and internal auditors regarding any irregularities and deficiencies disclosed in their reports.</p>	<ul style="list-style-type: none"> <li>• Consult with internal auditor on projects and work plans, receive and review reports, and receive updates on implementation of prior recommendations.</li> <li>• Consult with the external auditor on project scope, receive and review annual financial reports prior to presentation to full Council and community.</li> <li>• Review audit findings noted in audit reports or presentations.</li> <li>• Satisfy Statement of Auditing Standards (SAS) 114 by corresponding directly with auditors.</li> <li>• Monitor that policies are being followed through the review of test results conducted during internal and external audits and through ongoing communication with management and auditors. Request follow up as needed.</li> <li>• Facilitate internal and external audit report presentation in public meetings.</li> </ul>
<p>Determine what corrective action, if any, should be recommended to the City Council.</p>	<ul style="list-style-type: none"> <li>• Review findings and irregularities as noted by the auditors. Ensure management's response to irregularities is appropriate.</li> <li>• Assess management's response in incorporating changes and designing, implementing, and maintaining effective internal control over financial reporting processes.</li> </ul>
<p>Report to the City Council on the outcome of all audits, on any audit finding, and on any other pertinent communications, and make appropriate recommendations.</p>	<ul style="list-style-type: none"> <li>• After acceptance of audit reports, present findings and outcomes to Council and public.</li> </ul>
<p>Ensure that timely and appropriate action has been taken in response to City Council directions arising from audit reports.</p>	<ul style="list-style-type: none"> <li>• Request appropriate follow up from auditors and/or management for corrective action and monitor progress.</li> <li>• Receive information from staff on ongoing internal and external audit issues.</li> </ul>
<p>Consider the effectiveness of the framework for internal control, review the effectiveness of the systems for</p>	<ul style="list-style-type: none"> <li>• Communicate areas of concern to internal and external auditors.</li> </ul>

<p>monitoring compliance with laws and regulations, and review the processes for communicating the City's compliance policies to City personnel and monitoring compliance therewith.</p>	<ul style="list-style-type: none"> <li>• Assess management's involvement in establishing and monitoring strong internal controls.</li> <li>• Review audit reports and management's response to findings or irregularities.</li> </ul>
<p>Provide an alternative way for employees, taxpayers, or other citizens to confidentially report suspected illegal, improper, wasteful or fraudulent activity.</p>	<ul style="list-style-type: none"> <li>• Establish procedures for fraud reporting.</li> <li>• Function as an independent body to receive internal whistle blower complaints in a manner that protects the confidentiality of whistle blower reports.</li> <li>• Function as an independent body to receive requests or reports from the community related to financial processes or reporting concerns.</li> </ul>
<p>Provide oversight of the periodic review and selection of external and internal auditors.</p>	<ul style="list-style-type: none"> <li>• Provide guidance to staff on the selection criteria for Requests for Proposals for internal and external auditor firm. The financial experts residing on the Subcommittee review proposals and participate in the interview and selection process.</li> </ul>

The Statement of Auditing Standards (SAS) 114 “The Auditor’s Communication with those Charged with Governance” establishes the standards and provides guidance on communication between the auditor and the persons responsible for overseeing the strategic direction of the entity and obligations related to the accountability of that entity. SAS 114 offers that while governance is charged with overseeing the financial reporting process, it is management’s responsibility to achieve the entity’s objectives and establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting. The auditor should communicate the scope and timing of the audit and timely observations arising from the audit to the Audit Subcommittee and the Subcommittee should provide the auditors information relevant to the audit. The auditor should have access to the audit committee as necessary and should meet without management at least annually. However, it should be noted that communication between Subcommittee members and auditors must comply with the Brown Act (Government Code Sections 54950-54962), restricting communication to two members outside of a noticed meeting.



Date: August 30, 2016  
To: City of Santa Monica Audit Subcommittee  
From: Mark Steranka  
Subject: Internal Audit Status Report April 1, 2016 through August 30, 2016

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#### Ambulance Billing Review:

- Schedule: November 1, 2015 through September 30, 2016.
- Activities for This Period: Analyzed test results, identified exceptions, worked with staff to address exceptions, and developed preliminary findings and recommendations.
- Activities for Next Period: Finalize findings and recommendations and prepare draft and final reports.
- Issues: none

#### Benefits Billing and Reconciliation Review:

- Schedule: January 1, 2016 through September 30, 2016.
- Activities for This Period: Performed reconciliation, identified exceptions, worked with staff to address exceptions, and developed preliminary findings and recommendations.
- Activities for Next Period: Finalize findings and recommendations and prepare draft and final reports.
- Issues: none

#### Cash Handling Review

- Schedule: July 1, 2016 through October 15, 2016.
- Activities for This Period: Performed project planning, reviewed relevant documents, and initiated onsite cash audits.
- Activities for Next Period: Complete onsite cash audits, develop findings and recommendations based on best practices, and prepare draft and final reports.
- Issues: none

#### Enterprise Risk Assessment:

- Schedule: August 1, 2016 through October 30, 2016.
- Activities for This Period: Performed project planning.
- Activities for Next Period: Schedule and conduct interviews, review documents, evaluate risks, and prepare draft and final reports.
- Issues: none



Policies and Procedures Validation:

- Schedule: August 1, 2016 through October 15, 2016.
- Activities for This Period: Reviewed Finance Department Policies and Procedures Inventory.
- Activities for Next Period: Compare inventory to internal controls findings, select policies and procedures, review policies and procedures for findings validation, and report results.
- Issues: none

Supervisor Training:

- Schedule: September 1, 2016 through September 30, 2016.
- Activities for This Period: Scheduled supervisor training.
- Activities for Next Period: Prepare training materials and deliver training.
- Issues: none



## INTERNAL CONTROLS REVIEW PROGRESS REPORT

Highlighted items have been completed since last report in January 2016

INTERNAL AUDIT RECOMMENDATIONS TRACKING						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
RECOMMENDATIONS ADDRESSED THROUGH INTERNAL AUDIT WORK PLANS						
Monthly Reconciliation	1	High	High	Bank Reconciliation	Internal Audit: prepare documentation Finance: create bank reconciliation procedures	<b>Completed.</b> Management has implemented a streamlined methodology and procedures; including streamlining the process between Accounting and Treasury functions. The methodology and process have been incorporated into the updated bank reconciliation desk procedure.
Revenue and Cash	2, 8, 9	High	Moderate	Cash Handling	Internal Audit: update policies and procedures and provide training Finance: implement Internal Auditor recommendations	<b>Pending Review.</b> Cash handling process improvements, including issuance of standard policies and procedures and citywide training, will be implemented upon the completion of the internal auditor cash handling review.
Accounts Receivable	1	High	High	Accounts Receivable	Internal Audit: assess A/R, inventory, ambulance billing, fees and invoicing  Finance: implement A/R module in new ERP system; complete billing and collections procedures	<b>Pending Review and ERP.</b> <ul style="list-style-type: none"> <li>Internal Auditor will be reviewing citywide A/R functions in Spring 2017.</li> <li>The ERP, with a new centralized A/R capability, will be operational on July 1, 2017.</li> <li>Financial Operations staff is now auditing off-site A/R functions, reconciling balances to the general ledger, and providing corrections and training on processes.</li> <li>Internal Auditor has nearly completed an audit of the City's ambulance contract, and City staff has developed a reconciliation process.</li> <li>The Billing &amp; Collections unit completed billing and collections procedures and took on billing functions for fire inspections, the Swim Center, certain Police Department billings, and billings for special events. Staff collected 56% of the total amount of delinquent accounts processed, and the City's collection agency collected about 11% of the amount referred, significantly higher than the collection rate for local government debt collection.</li> </ul>
Revenue and Cash	12, 13					
Revenue and Cash	3	High	Moderate	Fraud and Internal Controls	Perform training	<b>Pending Review.</b> <ul style="list-style-type: none"> <li>Written Counting Room procedures, including internal control practices, are completed and implemented.</li> </ul>
Training	1					

INTERNAL AUDIT RECOMMENDATIONS TRACKING						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
						Further improvements are pending the Cash Handling review. <ul style="list-style-type: none"> <li>Internal Auditor will be providing fraud and internal controls training overview in September 2016. Ethics code has been adopted by Council and an Administrative Instruction was distributed to staff in July 2016.</li> </ul>
Revenue and Cash	10	Moderate	Moderate	Internal Controls	Implement Internal Auditor recommendations	<b>Pending Review.</b> Cash handing process improvements, including issuance of standard policies and procedures and citywide training.
RECOMMENDATIONS THAT HAVE DISCRETE TASKS THAT ARE EASILY IMPLEMENTED						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
Revenue and Cash	1	High	High	Counting Room	Finalize draft access policies, and distribute and maintain log book	<b>Completed.</b> Counting room security policies and procedures have been distributed to staff and a log book documenting visitor entry is now in use.
Purchasing and A/P	1	High	High	A/P	Disseminate existing policies and procedures, and provide training	<b>Completed.</b> Accounts Payable procedures are complete, along with the User Training Manual. A/P training continues to be provided to staff Citywide.
Revenue and Cash	5	Moderate	High	Cash Transport	Select secure method for cash transport	<b>Pending Review.</b> There are armored transport pickups at three sites which represent the majority of cash collected. It is not economical to provide armored car pickup for all the 50 cash collection sites in the City. However, staff will consider other options for secure transport (such as check scanning) while undertaking the cash handling review.
Revenue and Cash	4	High	Moderate	Storage	Lock cabinets and secure keys, issue permits in sequential order, and reconcile permit system and POS	<b>Completed.</b> Finance has worked with Parking Operations staff to implement improvements, including secure storage of permits and logging of permit numbers. Written procedures have been drafted and implemented.
Revenue and Cash	7	Moderate	Moderate	Counting Room	Repair closed circuit monitor, and revise policy	<b>Completed.</b> Counting Room monitor has been repaired and is in working order. Staff has been advised to report inoperable equipment to management. Staff will also be reviewing coverage of cameras to ensure maximum security. A new Treasury Administrator position will provide further supervision of the Counting Room operations and equipment needs.
Purchasing and A/P	5	Moderate	Moderate	P-Cards	Provide consistent enforcement	<b>Completed.</b> The purchasing card violation program, which includes penalties, was formalized and distributed to staff in January 2015, and individual department trainings were conducted. Purchasing notifies departments on a monthly basis about outstanding receipts and status of violations. A purchasing card agreement has been signed by all

INTERNAL AUDIT RECOMMENDATIONS TRACKING						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
						purchasing card users in addition to cardholders to ensure knowledge of the enforcement system.
Revenue and Cash	6	Moderate	Moderate	Counting Room	Ensure policy compliance	<b>Completed.</b> Staff has been reminded of policies regarding use of pocketless smocks in the Counting Room and has been equipped with new pocketless smocks which are being commercially laundered.
Grants Management	1	Moderate	Moderate	Grants	Adopt draft Administrative Instruction	<b>Completed.</b> A Grants Administrative Instruction has been completed.
Revenue and Cash	14	Low	Moderate	Safes	Obtain safe	<b>Pending Review.</b> Treasury staff sent a notice to all cash handling locations reminding them of the need to store currency (cash/checks) and items of monetary value in secure locations. Further review and site-specific recommendations will be implemented along with the cash handling review.
Payroll	6	Moderate	Low	Overtime	Track overtime errors, and provide training	<b>Completed.</b> Guidelines have been incorporated in supervisor handbook.
Purchasing and A/P	6	Low	Low	A/P Queries	Document process, and perform monitoring	<b>Completed.</b> Staff is continuing to monitor all warrants to ensure that cumulative vendor limits do not exceed procurement policy parameters. Desk procedures and the A/P User Training Guide have both been updated to reflect the \$10,000 threshold. Procurement staff is monitoring purchase orders and contracts.
Purchasing and A/P	7	Low	Low	Duplicate Payments	Increase frequency of monitoring	<b>Completed.</b> Staff now conducts monthly duplicate payment monitoring rather than quarterly monitoring.
RECOMMENDATIONS TO BE IMPLEMENTED BY THE CITY THAT WILL TAKE TIME TO IMPLEMENT						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
Payroll	1	High	Moderate	On boarding and off boarding	Perform process development and documentation	<b>Pending ERP System.</b> While current payroll policies and procedures include processes payroll staff can control when notified of an employee's termination (i.e., verification that additional pays have end dates and the appropriate deductions will be taken from the final check), the new ERP system will make it possible to keep track of equipment issued to employees and allow new policies to be implemented such as deducting the value of outstanding equipment from final paychecks if not returned, and will have better workflow capability to allow the appropriate departments to be notified when key events happen.

INTERNAL AUDIT RECOMMENDATIONS TRACKING						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
Purchasing and A/P	2	High	Moderate	Personnel changes	Perform process development and documentation	<b>Completed.</b> When an employee terminates employment with the City, the purchasing card is one of the items that is retrieved along with other City-issued items (badge, keys, computer, phone). The responsibility to cancel the card has been incorporated in the Purchasing Card policies and procedures.
Purchasing and A/P	3	High	Moderate	P-card review	Perform process development and documentation	<b>Completed.</b> Management believes that responsibility for monitoring the appropriateness of transactions is clearly assigned and stated in the purchasing card policies and procedures and is the approver's responsibility at the department level, rather than the responsibility of Finance staff. There is also a limited restriction on the use of the card for certain purchases (i.e., amusement parks, liquor store purchases, are denied upon initial swipe). Finance is conducting spot audits of pcard transactions as recommended and documented in pcard review procedures.
Purchasing and A/P	4	High	Low	Credit card refunds	Perform process development and documentation	<b>Completed.</b> Management believes that the controls that are in place are sufficient. Refunds by credit card appear on the purchasing card statement and are reviewed and approved by department approvers during the reconciliation process as if they were a charge. Department approvers are managers and department heads. To ensure that staff has a proper understanding of the process, a refund process has been incorporated in the purchasing card policies and procedures.
Accounts Receivable	2	Moderate	Moderate	Billing and Collections	Develop process, policies, and procedures for billing and collections	<b>Pending Review.</b> As noted above, billing and collection procedures are complete. Drafting a separate A/R policy will be the joint effort of Accounting and the Revenue Division and will be informed by the internal audit A/R review. Development of AI will follow final approval of policies and procedures.
Revenue and Cash	9	Moderate	Moderate	Cash handling	After cash handling audit, develop program and perform random cash audits	<b>Pending Review.</b> As noted above, this will occur after internal audit review and recommendations for cash handling policy.
Grants Management	2	Moderate	Moderate	Grants management	Hire dedicated position, develop policies, provide training	<b>Completed.</b> Senior Grants Analyst position has been created and filled. Grants administrative instruction has been completed. Training provided on new federal reporting guidelines to over 50 City staff in January 2016.

INTERNAL AUDIT RECOMMENDATIONS TRACKING						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
Payroll	2	Moderate	Moderate	Pay rate verification	Perform process improvement and documentation	<p><b>Completed.</b> Finance has a monthly meeting with HR to review / refine roles, responsibilities, process documentation.</p> <p>HR has created a query to identify pay rates that do not match the agreed upon salary schedules for all job codes. Once the query is run and if it returns data, it is the responsibility of HR staff to make the corrections and notify the employees affected with any potential over or underpayments that may have happened as a result of the incorrect pay rate.</p>
Payroll	3	Moderate	Moderate	Timekeeping	Implement electronic timecards	<p><b>Nearing Completion.</b> To accommodate the submission of e-timecards by staff in remote locations, staff configured the Kronos Mobile module. However, when the system was tested, it was revealed that certain components are not compatible with the City's current mobile configurations. Staff is working with the vendor to find solutions. Staff is continuing to work with the City Attorney's Office to implement electronic timekeeping.</p>
Payroll	4	Moderate	Moderate	Overtime	Perform process improvement and documentation	<p><b>Completed.</b> Management has confirmed that departments must be responsible for approving overtime requests and reviewing timecards. In general, employees are to receive advance authorization for overtime and supervisors approve timecards prior to payment. Guidelines are included in the Payroll policies &amp; procedures and are noted in the supervisor handbook to be distributed in September 2016.</p>
Payroll	5	Moderate	Moderate	FLSA	Monitor supplemental timecards	<p><b>Completed.</b> A process is in place. The new ERP system will alleviate the requirement for supplemental timecards to calculate FLSA pay.</p>
Payroll	9	Low	Moderate	Timekeeping	Implement random reviews of schedules and timekeeping	<p><b>Pending ERP System.</b> It is anticipated that the new HR/Payroll system will create efficiencies in a currently cumbersome process that will allow for random audits to be conducted.</p>
Revenue and Cash	15	Low	Moderate	Cash handling	After cash handling audit, analyze need for separate cash tills	<p><b>Pending Review.</b></p>
Purchasing and A/P	8	Low	Low	Waste demolition refunds	Perform process improvement and documentation	<p><b>Continuing.</b> Staff is working with the Resource Recovery and Recycling Division to strengthen the waste deposit refunding process.</p>

INTERNAL AUDIT RECOMMENDATIONS TRACKING						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
<b>RECOMMENDATIONS THAT REQUIRE DOCUMENTATION OF POLICIES AND PROCEDURES</b>						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
Revenue and Cash	1	High	High	Counting Room	Develop policy for visitor access	<b>Completed.</b> This has been addressed above.
Citywide and Departmental Policies	1	High	Moderate	Administrative Instructions	Update and revise	<b>Nearing Completion.</b> A full set of Finance policies and procedures have been updated and are in the process of being validated by the Internal Auditor. Staff is continuing to update financial Administrative Instructions. The process should be completed within the next six months.
Payroll	7	Moderate	Low	Timekeeping Review	Develop policy and provide training	<b>Completed.</b> Payroll procedures manual has been completed. Relevant portions of the policy are highlighted in the supervisors' handbook (September 2016).
Payroll	10	Low	Low	Payroll	Document internal procedures	<b>Completed.</b> Payroll procedures manual has been completed.
Citywide and Departmental Policies	2	Low	Low	Department Procedures	Develop and document procedures	<b>Nearing Completion.</b> A full set of updated Finance policies and procedures has been completed and is currently being validated by the Internal Auditor. Staff is working to update financial Administrative Instructions as part of this effort. 90 staff members attended a year-end financial presentation held by Procurement, Financial Reporting, Revenue, Accounts Payable, Capital Program and Grants Management.
<b>RECOMMENDATIONS THAT REQUIRE TRAINING</b>						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
Purchasing and A/P	1	High	High	A/P review and approval	Conduct training for A/P staff (in departments)	<b>Completed.</b> User training completed in October and November included 52 participants. User Training Guide is completed but always being updated.
Training	2	Low	Low	Fiscal training	Assess gaps and update training	<b>Completed.</b> Council adopted the City's Code of Ethics on November 24, 2015 and the Administrative Instruction was distributed in July 2016. Finance continues to add fiscal training sessions for citywide staff. Additional training will be conducted once policies and procedures are completed.
<b>RECOMMENDATIONS THE REQUIRE CHANGES TO CURRENT TECHNOLOGY</b>						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
Revenue and Cash	11	Moderate	Moderate	Point of Sale (POS)	Explore POS features and develop plan for comprehensive deployment	<b>Pending ERP System.</b>

INTERNAL AUDIT RECOMMENDATIONS TRACKING						
CONTROL OBJECTIVE	#	LIKELIHOOD	IMPACT	SUBJECT	ACTION	STATUS
Payroll	9	Low	Moderate	Scheduling	Explore additional Kronos capabilities	<b>Continuing.</b> City is exploring cost/benefit of advancing scheduling components within current electronic timekeeping system.

RELATED TO INTERNAL INITIATIVES ALREADY UNDER DEVELOPMENT	
<b>NEW ERP SYSTEM</b>	
Payroll (2) – Employee pay rates are accurate (cross training HR staff) <i>(response above)</i>	Payroll (3) – City Attorney on Kronos <i>(response above)</i>
Payroll (5) – FLSA monitoring / process <i>(response above)</i>	Payroll (8) – Manual payroll process – update with ERP and build in checks for current manual system. <b><i>Partially completed-</i></b> checks for current manual system are implemented.
Accounts Receivable (1) – A/R systems: address through new ERP system and billings / collections procedures <i>(response above)</i>	
<b>TRAINING ACADEMY</b>	
Payroll (4) – Overtime approval and documentation. Include in supervisor handbook. <i>(response above)</i>	Payroll (6) – Timekeeping review / responsibilities. Included in Payroll policies and procedures. Will include in supervisor handbook. <i>(response above)</i>
Payroll (7) – Supervisor role in FLSA, other labor laws (overtime eligibility, etc.). Will include in supervisor handbook. Overtime procedures included in Payroll policies and procedures. <i>(response above)</i>	Training (1) – Waste, abuse, fraud, abuse training. Will engage auditors to provide short training / video to supervisors during supervisor training. Ethics policy in development. <i>(response above)</i>



## Santa Monica Audit Subcommittee Report

**Audit Subcommittee of the Santa Monica City Council**

**Meeting: August 30, 2016**

**Agenda Item: 9**

To: Chairperson and Members  
From: Gigi Decavalles-Hughes, Director of Finance  
Subject: Resolution of the Audit Subcommittee of the Santa Monica City Council  
Establishing Regular Meeting Dates

### **Recommended Action**

Staff recommends that the Audit Subcommittee of the Santa Monica City Council:

1. Adopt the attached Subcommittee Resolution establishing regular meetings of the Subcommittee;
2. Authorize the members of the Subcommittee to take all actions necessary to implement the purpose of the Resolution.

### **Executive Summary**

On July 28, 2015, the Council adopted a resolution establishing an Audit Subcommittee in accordance with best practices in financial management. The resolution calls for the Subcommittee to meet a minimum of three times annually. This resolution sets the dates and times of the regular meetings.

### **Background**

On July 28, 2015, as authorized by Resolution No. 10901 (CCS), the Audit Committee of the Santa Monica City Council was established. The Resolution of the City Council of the City of Santa Monica Establishing an Audit Committee calls for the Subcommittee to meet a minimum of three times annually. The purpose of the Audit Subcommittee (the Subcommittee) is to assist the Council in fulfilling their oversight responsibility for the financial reporting process, the framework for internal control, and the audit process. On October 12, 2015, the Audit Subcommittee met for the first time and adopted a resolution establishing regular meeting dates. However, due to an error in the posting of the October meeting, the Subcommittee was required to re-vote on this issue on

January 19, 2016, when it set regular three meeting dates per year, in January, April and October.

### **Discussion**

At its April 19, 2016 meeting the Audit Subcommittee expressed an interest in meeting quarterly, or four times per year, in order to more thoroughly fulfill its oversight responsibilities. The attached Resolution sets the date and time of the Subcommittee's ongoing regular meeting schedule going forward and includes an August meeting date. The regular meetings of the Audit Subcommittee will occur on the third Tuesday of January, April, August and October at 7:00 p.m. in the Ken Edwards Center. If an action is not ready to be taken on the date of the regularly scheduled meeting, the item may be continued pursuant to the Ralph M. Brown Act or rescheduled for the following regular meeting. If a meeting is deemed not to be necessary on the scheduled meeting date, or a change of date is required, the Subcommittee may reschedule the meeting. Additional regularly scheduled meetings may be added by resolution in the future.

### **Attachments:**

1. Resolution of the Audit Subcommittee of the Santa Monica City Council Establishing Regular Meeting Dates

RESOLUTION NO. \_\_\_\_\_

RESOLUTION OF THE AUDIT COMMITTEE OF THE CITY COUNCIL  
OF THE CITY OF SANTA MONICA ESTABLISHING REGULAR  
MEETING DATES

WHEREAS, on July 28, 2015, the City Council of the City of Santa Monica adopted Resolution Number 10901, establishing an Audit Subcommittee (the "Audit Committee") to assist the Council in fulfilling their oversight responsibility for the financial reporting process, the framework for internal control, and the audit process; and

WHEREAS, in accordance with the provisions California Government Code section 54954(a), the Audit Committee wishes to establish times and a location for its regular meetings.

WHEREAS, on January 19, 2016, the Audit Subcommittee adopted a resolution establishing a regular meeting schedule; and

WHEREAS, an annual quarterly meeting schedule, rather than three meetings per year, will allow additional opportunity for the Audit Subcommittee to fulfill its oversight responsibilities.

NOW, THEREFORE, the Members of the Audit Subcommittee of the City Council of the City of Santa Monica do hereby resolve as follows:

SECTION 1. Regular Meetings. From the date hereof, the regular meetings of the Audit Committee shall be held on the third Tuesday of each January, April, August and October at 7:00 p.m. at the Ken Edwards Center, 1527 4th Street, Santa Monica, CA 90401.

SECTION 2. The City Clerk shall certify to the adoption of this Resolution, and thenceforth and thereafter the same shall be in full force and effect.

APPROVED AS TO FORM:

  
MARSHA JONES MOUTRIE  
Authority Counsel