



Public Utilities Department Performance Audit and Financial Expenditure Review by Baker Tilly

City Manager's Office - Internal Audit Division

Board of Public Utilities
July 25, 2016

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BACKGROUND

1. On July 28, 2015, the City Council endorsed the City Manager's Performance and Financial Expenditure Audit Program.
2. The Program provides for rotating (every five years) comprehensive performance and financial expenditure audits of all departments, by independent experts.
3. Riverside Public Utilities, the Finance Department and the Human Resources Department were selected for FY 2015/16.



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BACKGROUND

1. On August 11, 2015, the City Council approved the scope of services for the audit contracts.
2. On December 1, 2015, the City Council approved the agreement with Baker Tilly to conduct the performance audit and financial expenditure review of the Public Utilities Department.



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Presentation of Final Reports of the Public Utilities Department by

Baker Tilly International



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City of Riverside

Performance Audit Results




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Overview



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The City of Riverside (City) engaged Baker Tilly to conduct a performance audit of Riverside Public Utilities (RPU) of the performance of certain departments, programs, activities and functions of RPU.

We would like to thank RPU personnel and City and RPU management for the assistance they provided to us during this project. Their assistance was invaluable and without their help and cooperation completion of this project would not have been possible.

Overview



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The scope of the performance audit included:



Executive Summary




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Baker Tilly was engaged to review RPU's performance in the following departments:

- [Miscellaneous Accounts Receivable](#)
- [Contracting and Procurement Policies and Practices](#)
- [Reserve Setting](#)
- [Debt Capacity](#)
- [Asset Management Practices](#)
- [Management Reporting Systems](#)
- [Property Leases Monitoring and Control](#)
- [Economic Development and Contract Rate Programs](#)
- [UOC Tool Room \(Meter\) Inventory](#)
- [Scrap/Salvage Inventory and Control](#)
- [Alignment with City of Riverside 2.0 Strategic Plan and RPU 2.0 Strategic Plan](#)

Executive Summary




Overall, there were 43 observations and/or process improvement recommendations. Baker Tilly categorized these into High, Medium, and Low priorities and assigned a cost estimate that would be involved in implementing the recommendation.

High


Medium

Low



The following slides show the observations that were categorized as High Priority (11 items).


Executive Summary



Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources?	Additional Budget Item?
2.0 Contracting and Procurement Policies and Practices	2.2.1 Review of access rights for specific purchase requisition actions in UWAM is done on an ad hoc basis by Information Technology (IT) and access rights are confirmed with managers.	Access rights should be reviewed quarterly and documentation should be maintained for each review.	Existing Resources	High	X	

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Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources?	Additional Budget Item?
6.0 Management Reporting Systems	6.2.7 During interviews with RPU personnel, it was noted that the City Human Resources department does not have the same information available as RPU. The HR department and RPU show different numbers for hiring needs, available positions, etc. It was noted in interviews that RPU hiring needs are not always met due to lack of dedicated HR resources and information availability.	RPU and the Human Resource function need to share common databases of relevant information. To meet service needs agreements between RPU and HR should be considered.	Existing Resources	High	X	

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Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources?	Additional Budget Item?
6.0 Management Reporting Systems	6.2.10 Many reports are prepared through manual manipulation of data. This results in a loss of data integrity.	From an internal controls standpoint, this results in a weakness in the integrity of information and a potential significant deficiency or material weakness in internal controls.	Existing Resources	High	X	

Executive Summary




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Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources?	Additional Budget Item?
9.0 UOC Tool Room (Meter) Inventory	9.2.1 Currently, there are many pallets of water meters that upon receipt from the vendor are placed in an uncaged/unsecured upstairs area of the Water Meter Shop.	To improve internal controls over physical meter access, RPU should consider creating a caged space for these meters.	Existing Resources	High	X	

Executive Summary




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Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources?	Additional Budget Item?
9.0 UOC Tool Room (Meter) Inventory	9.2.3 Currently, there is no tracking of water meter inventory location until they are entered in enQuesta when installed on a customer's premise.	RPU should consider tracking water meters upon receipt from vendor through their installation.	Existing Resources	High	X	

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Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources ?	Additional Budget Item?
9.0 UOC Tool Room (Meter) Inventory	<p>9.2.5 Baker Tilly performed reconciliation of book values to physical inventory for a select sample of electric meters and water meters. Baker Tilly noted no exceptions related to electric meters to the sample quantity of electric meters that were counted.</p> <p>In regards to the water physical inventory evaluation, there was a slight discrepancy in quantity of meters that were on record from a sample purchase receipt (100) and actual quantity counted (90). The discrepancy was due to the fact that these were construction meters that are not installed permanently on customer premises, so their locations could not be accounted for (i.e., these meters could have been recycled or scrapped after being used).</p>	<p>RPU should consider tracking water meters upon receipt from vendor through their installation either through an existing system or through Excel.</p>	Existing Resources	High	X	

Executive Summary




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Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources ?	Additional Budget Item?
9.0 UOC Tool Room (Meter) Inventory	<p>9.2.6 While the individuals creating work orders can see the min/max inventory levels in UWAM, the Central Stores Warehouseman is not able to see meters listed on work order pick lists, so he has to rush to release the meters from the Central Stores for jobs.</p> <p>RPU is currently in the process of creating compatible units (CUs) for meters and CTs to integrate this equipment into the work order process.</p>	<p>RPU should consider integrating the meter check-out process into the Work Order process to provide appropriate alerts to Central Stores Warehouseman to reduce lag time with staging jobs. Additionally, usage of CUs will increase planning efficiency.</p>	Existing Resources	High	X	

Executive Summary




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Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources ?	Additional Budget Item?
1.0 Miscellaneous Accounts Receivable	1.2.1 Processing of miscellaneous accounts receivable is highly paper intensive and requires triple-entry of data into multiple systems.	The City should determine if the Integrated Financial and Administrative Solution (IFAS) has the capability to route approvals or set up workflow for miscellaneous accounts receivable. This would enable divisions to enter receivable information directly into IFAS and route to the appropriate people, including Finance for approval and further processing. This would eliminate paper processing and triple-entry of data into multiple systems, which makes greater possibilities for control weaknesses.	Under \$75,000	High		X

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Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources ?	Additional Budget Item?
5.0 Asset Management Practices	<p>5.2.5 RPU has developed an aggressive plan to enhance its asset management function, particularly through the implementation of improved use of the asset management system (i.e., UWAM) for functions including, warehouse inventory and work management.</p> <p>To achieve RPU's goals, Leidos Engineering, RPU's technology planning consultant, recommended the following in the June 2015 Strategic Technology Plan:</p> <p>"To ensure successful adoption of the proposed technology investments and realize their anticipated benefits, RPU must create a new organizational structure, add new resources, and provide training for existing staff to use and maintain newly implemented technologies."</p> <p>To address this concern, RPU created the OT function. It is possible that OT will not be sufficient to meet all of RPU's staffing needs including both day-to-day operations (work order control, scheduling, asset managers) as well as IT support (both day-to-day and implementation support).</p>	<p>RPU should consider conducting an organizational assessment of its asset management function. The assessment should consider overall staffing, workload, and organizational structure of RPU and the asset management function.</p> <p>RPU should request, as a result of the organizational assessment, estimates of the costs and benefits associated with the recommended organizational alternatives.</p>	\$75,000 - \$250,000	High		X

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Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources ?	Additional Budget Item?
6.0 Management Reporting Systems	6.2.4 RPU currently uses IFAS, an integrated financial and administrative solution which does not have the ability to run necessary reports.	RPU should consider acquiring financial statement software that will allow the export of data and creation of reports with minimal data manipulation.	\$500,000 - \$1 million	High		X

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Summary of Observations and Recommendations – High Priority

Review Area	Observation	Recommendation	Cost Estimate	Priority	Existing Resources ?	Additional Budget Item?
2.0 Contracting and Procurement Policies and Practices	2.2.4 The City's purchasing software, UWAM, allows users entering requisitions to pick from a list of people who can approve their requisition, even if that person is in a different department. Most purchasing systems would automatically route the requisition to the appropriate approver based on the person making the requisition and the dollar value of the requisition. This allows for stronger internal controls, reduced mistakes and enhanced efficiencies.	The City should explore whether or not UWAM can be configured to automatically route requisitions instead of users choosing an approver from a drop down list.	Under \$75,000	High		X

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Summary of Observations and Recommendations – High Priority


As noted on the previous slides, 7 out of the 11 high priority recommendations can be implemented with RPU's existing resources. The remaining 3 will require additional funds to implement ranging from an estimate of \$2,225,000 - \$5,025,000.

Management Response of the 43 Performance Audit Recommendations:


- Agree 20
- Evaluating 23

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Financial Review Results




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Overview



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The City of Riverside (City) engaged Baker Tilly to perform a review of Riverside Public Utilities (RPU) expenditures over the three year period of Fiscal Years ending June 30, 2015, 2014 and 2013.

We would like to thank RPU and City Finance personnel as well as City and RPU management for the assistance they provided to us during this project. Their assistance was invaluable and without their help and cooperation completion of this project would not have been possible.

Overview




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The scope of the financial review included:

-  **Proper internal control**
-  **Compliance with relevant City and RPU policies**
-  **Accurate and supported payments**
-  **Payments with appropriate business purpose**

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Sample Size

In order to meet the City's request for a deeper dive into the transactional analysis than a typical financial audit, Baker Tilly selected a sample of 200 transactions for each year under review.




FY Ending	Sample Size
June 30, 2013	200
June 30, 2014	200
June 30, 2015	200
Total	600

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Overall, there were four (4) process and control observations and six (6) transaction testing exceptions and observations, for a total of ten (10) items in which recommendations were provided. Baker Tilly categorized these into High, Medium, and Low priorities and assigned a cost estimate that would be involved in implementing the recommendation.

High	
Medium	
Low	

The following slides show the observations that were categorized as High Priority (1 general process/control observations and 1 related to transaction testing).

Executive Summary

Observations and Recommendations – High Priority Process/Control Observations


#	Observation	Recommendation	Cost Estimate	Priority
1	<p>The City's policies for processes covered under the scope of this expenditure review are located in the following documents:</p> <ul style="list-style-type: none"> > Purchasing Policies (Administrative Handbook) > Accounts Payable Policies (Administrative Handbook) > Purchasing Resolution R-22576 > Internal Audit Reports <p>It was also noted that there is currently no formal documented policy for wire transfers.</p> <p>Additionally, two discrepancies are noted between documented policies and practice, including the following:</p> <ul style="list-style-type: none"> > The RFP policy in the Administrative Handbook requires a RFP or Rebate Form to be issued, regardless of value. In practice, Finance review of RFPs and Rebates under \$1,000 is by exception only. This practice is based on a recommendation in Internal Audit Report AU 06-07 to reduce the manual 100% verification and improve efficiencies. > The RFP policy in the Administrative Handbook indicates that refunds and utility rebates paid by the City to customers fall under a request for payment. In practice, a RFP form is not used for rebates, the Rebate Application Form is utilized instead. 	<p>The City is currently in the process of updating its policies and procedures. Baker Tilly recommends that this includes a comprehensive policy covering the various purchasing processes, including:</p> <ul style="list-style-type: none"> > Purchase Requisition / Purchase Order > Competitive Bidding Procedures & Exceptions > Contracting & Legal Review > Receipt of Goods & Services > Invoice Processing & 3-Way Match > Request for Payments & Rebates > Wire Transfers > Check Approvals > Use of the SPL and IFAS systems in the purchasing process > Authorization Limits <p>The Policy should be distributed to City personnel across all departments and reviewed, and updated as necessary annually.</p> <p><i>Note: The City anticipates completion of the policy and procedure updates by the end of calendar year 2016.</i></p>	Existing Resources	High

Executive Summary

Observations and Recommendations – High Priority Transaction Testing Observations

#	Observation	Occurrences	Recommendation	Cost Estimate	Priority
5	<p>During check printing, signatures are automatically printed on the checks. Outgoing checks are not consistently reviewed by authorized check signers. During the expenditure review period, the check register was being reviewed by a few designated individuals, one of whom is an authorized check signer, however not for all check registers reviewed.</p> <p>A total of 75 samples and 26 check registers were not reviewed by an authorized signer.</p>	<p>FY 2013:</p> <ul style="list-style-type: none"> - 39 of 200 transactions (19.5%) - 39 of 186 transactions paid via check (21%) <p>FY 2014:</p> <ul style="list-style-type: none"> - 32 of 200 total transactions (16%) - 32 of 188 transactions paid via check (17%) <p>FY 2015:</p> <ul style="list-style-type: none"> - 4 of 200 transactions (2%) - 4 of 182 transactions paid via check (2.2%) 	<p>Baker Tilly recommends that the check register be reviewed and signed by an authorized check signer for every check run.</p>	Existing Resources	High

Executive Summary



Summary of Observations and Recommendations – High Priority

As noted on the previous slides, both of the high priority recommendations can be implemented with RPU's existing resources.

Management Response of the 10 Financial Review Recommendations:

- o Agree 8
- o Evaluating 1
- o Disagree 1

Contact Info



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RECOMMENDATION

That the Board of Public Utilities recommend that the City Council:

1. Review the findings and recommendations of the external auditor for the Performance Audit of the Public Utilities Department;
2. Review the findings and recommendations of the external auditor for the Financial Expenditure Review of the Public Utilities Department;
3. Receive and file the initial assessment of the findings and recommendations; and
4. Direct staff to return in September 2016 with an Action Plan.



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