

**Management Response to Baker Tilly Observations and Recommendations  
June 2016**

**Riverside Public Utilities Financial Review of Expenditures**

<b>Audit Item #</b>	<b>Observation</b>	<b>Occurrences and Recommendations</b>	<b>Cost Estimate</b>	<b>Priority</b>	<b>Management Response</b>
RPU Financial Review of Expenditures - Observations and Recommendations					

*General Process and Control Observations*

<b>1</b>	<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"> <li>➤ Purchasing Policies (Administrative Handbook)</li> <li>➤ Accounts Payable Policies (Administrative Handbook)</li> <li>➤ Purchasing Resolution R-22576</li> <li>➤ Internal Audit Reports</li> </ul> <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"> <li>➤ 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.</li> </ul>	<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"> <li>➤ Purchase Requisition / Purchase Order</li> <li>➤ Competitive Bidding Procedures &amp; Exceptions</li> <li>➤ Contracting &amp; Legal Review</li> <li>➤ Receipt of Goods &amp; Services</li> <li>➤ Invoice Processing &amp; 3-Way Match</li> <li>➤ Request for Payments &amp; Rebates</li> <li>➤ Wire Transfers</li> <li>➤ Check Approvals</li> <li>➤ Use of the SPL and IFAS systems in the purchasing process</li> <li>➤ Authorization Limits</li> </ul>	Existing Resources	High	Agree
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	<p>➤ 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>	<p>The Policy should be distributed to City personnel across all departments and reviewed, and updated as necessary annually. Note: The City anticipates completion of the policy and procedure updates by the end of calendar year 2016.</p>			
<b>2</b>	<p>Invoices are received at the department level instead of by Accounts Payable, which leaves Accounts Payable unaware of invoices that have been received but not yet entered/approved by the departments. This process is a material weakness in internal controls as it puts the City and RPU at risk for materially misstating outstanding liabilities at year-end, as well as late penalties or loss of potential discounts. <i>Refer also to recommendation #5 in the City Internal Audit report "AU 06-07 Accounts Payable."</i></p>	<p>Baker Tilly recommends that the City require a purchase order for all invoiced expenditures, and that a request be made to have vendors send a second invoice copy to Accounts Payable.</p> <p>In addition, Accounts Payable should monitor the status of invoices and follow up with RPU as necessary to ensure timely processing and payment of invoices.</p>	Existing Resources	Medium	<p>Agree- All Invoiced Expenditures and Service Purchases over \$2500 need Purchase Orders. Expenditures under \$2500 purchase only by Purchase Card. Service Purchases under \$2500 do not need a purchase order. Agree with additional AP staff added.</p>
<b>3</b>	<p>Invoice payments are required to be entered against an existing PO. Policy prohibits processing of invoice amounts that differ from the PO by more than 10% and states that a change order should be processed. Currently, SPL will produce an error message to notify that there is a variance above this threshold; however, it does not restrict the user from entering and approving the invoice.</p>	<p>The City should review capabilities for enforcing system controls to restrict users from entering invoice payments when a variance greater than 10% of the PO exists. Controls should be implemented to not allow processing of payments for invoices that are over a stated percentage of the original PO without higher level manager approval.</p>	Under \$75,000	Medium	<p>Agree- but cannot implement until new Finance System is implemented.</p>

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4	Baker Tilly noted at the time of the audit that there is no formally established numbering convention for entering invoices that do not have invoice numbers from the vendor.	<p>Baker Tilly recommends that the City begin to use automated number functionality, if available within the system, and/or establish and document a policy for invoice numbering conventions for consistency and to avoid the risk of duplicate payments. Although the current system, SPL, does not allow an invoice to be entered when the same invoice number exists, without a defined numbering convention there is greater risk for duplicate entry potentially resulting in</p> <p>City Finance is currently in the process of procuring a new system to replace SPL. This automated numbering capability should be explored with the new system and implemented at that time.</p>	Existing Resources	Low	Evaluating

**Transaction Testing – Exceptions and Observations**

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 24 check registers were not reviewed by an authorized signer.</p>	<p>FY 2013: 39 of 200 total transactions sampled for FY 2013 (19.5%) and 39 of 186 transactions paid via check (21%)</p> <p>FY 2014: 32 of 200 total transactions (16%) and 32 of 188 transactions paid via check (77%)</p> <p>FY 2015: 4 of 200 total transactions (2%) and 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.	Existing Resources	High	Disagree - to ensure adequate internal controls, staff other than an authorized check signer will review the check register.
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6	Per the Request for Payment (RFP) policy in the Administrative Manual, Finance approval is required for all RFP transactions. Baker Tilly noted several RFP forms under \$1,000 that were not approved by the Finance Department.	FY 2013: 28 of 200 total transactions sampled for FY 2013 (14%) and 28 of 51 requests for payment less than \$1,000 (55%)	The City provided Internal Audit Report AU 06-07, in which the Internal Audit function recommended review of RFPs under \$1,000 by exception only, in order to reduce the manual 100% verification and improve efficiencies.	Existing Resources	Medium	Agree
	Per City Finance, the current procedure is to review RFP forms under \$1,000 by exception only, implemented as a result of a City Internal Audit recommendation from report AU 06-07 Accounts Payable.	FY 2014: 20 of 200 total transactions (10%) and 20 of 45 requests for payment less than \$1,000 (44%)	Baker Tilly recommends that this practice be formally documented and updated in the Request for Payment policy.			
		FY 2015: 2 of 200 total transactions (10.5%) and 21 of 42 requests for payment less than \$1,000 (50%)				
		Process improvement opportunity noted.	Refer also to recommendation #3 above.			
7	A Request for Payment (RFP) form greater than \$1,000 was not approved by the Finance Department, as required.  One exception noted.	FY 2014: 1 of 45 requests for payments (2.2%)	Baker Tilly recommends that the City explore options within SharePoint or similar systems to move RFP and RFWT processes away from a manual paper process and implement an electronic form utilizing workflow for approvals.	Existing Resources	Low	Agree. Will need funds to automate process

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8	In one (1) instance, the department approver for a Request for Payment (RFP) was not an authorized signer.  <i>One finding noted.</i>	FY 2013: 1 of 200 total transactions (.5%) and 1 of 35 requests for payment (2.9%)	Baker Tilly recommends that the City explore options within SharePoint or similar systems to move RFP and RFWT processes away from a manual paper process and implement an electronic from utilizing workflow for approvals.	<i>Already covered under observation #7</i>	Low  Agree. Will need funds to automate process
9	In one (1) instance, the vendor invoice pre-dated a purchase order. The transaction did not relate to an annual purchase order, meaning that the invoice should not have pre-dated purchase order approval. Specifically, invoice #14958 from Hilltop Geotechnical was dated on April 30, 2015. The purchase order was approved in SPL on June 1, 2015.  <i>One exception noted.</i>	FY 2015: 1 of 200 total transactions (.5%)	The individual who made the purchase did not follow City policy. The City should implement stronger monitoring controls to ensure that the City personnel do not enter into purchasing agreements until proper approval has been obtained as required in the City's policies and procedures.  An example of a monitoring control would be for SPL to not allow payment of invoices whose date precedes the purchase order date without supervisory override and approval.	Existing Resources	Low  Agree.

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10	For one (1) transaction, Treasury could not provide documentation indicating which individual initiated the wire transfer. As a result, Baker Tilly was unable to verify that the wire was initiated and released by two different individuals with proper authority.	FY 2013: 1 of 200 total transactions (.5%) and 1 of 12 wire transfers (8%)	Baker Tilly recommends that Treasury ensure wire transfer reports are consistently retained and filed in a designated location.	Existing Resources	Low	Agree
	One exception noted.					